BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

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JUNE 1935

Capital Street

Mortgage Insurance

The Banking Bill

A National View of State B

PAGE ONE

Corporation Profits

RETURNS for the first quarter of the current year of industrial corporations publishing quarterly reports show net profits, less deficits, of over 21 per cent more than the profits for the same corporations in 1934. Calculated on the rate of return on net worth, the increase is greater, since many corporations have continued to write down their net worth for a number of reasons, including reductions in capital.

*

Bank Capital

This is a reminder that banks which have reduced their capital during the depression may find themselves slightly embarrassed if deposits continue to mount, as they most certainly will under current policies. Perhaps the most serious phase of the matter is that new capital may be called for without any fair prospect of a corresponding increase in bank earnings.

*

Agricultural Adjustment

From the date it commenced to operate, the Agricultural Adjustment Administration has put out $776,103,578 and has taken in, as revenue from processing taxes, $777,540,894. Had a manufacturers' sales tax totaling three quarters of a billion dollars been proposed when the A.A.A. was inaugurated, there would have been little short of a riot in Congress in protest against the heavy taxation of the consuming public.

*

Silver in the United States

It has been a repeated declaration by many of the leading silver advocates in and out of Congress in the past few weeks that the rise in the price of silver forced by the silver purchase policy of the United States will result in a revaluation and eventual stabilization of world currencies. There is just enough truth in this declaration to make it interesting without making it valid. Upsetting the currencies of countries using silver in a major monetary way will undoubtedly result in the revaluation or elimination of silver currencies and, by introducing still more confusion in an already confused currency situation, may result in hastening international currency stabilization as a matter of sheer world necessity.

*

Silver in the World

From this standpoint the world currency situation must get much worse before it can get much better; and there may be something in this idea. That such revaluation of currencies and eventual stabilization will benefit silver or benefit the United States in any special way, however, not only does not follow but in fact promises to be exactly otherwise. It is becoming more and more evident that the net result of the boom in silver will be a reduction in the use of silver as money all over the world except in the United States.

*

Seignorage

Up to May 1 the Federal Treasury had obtained a profit of $129,634,136.89 in the current fiscal year as "seignorage" from the issue of silver certificates under the silver purchase plan.

BANKING BILL

Winthrop W. Aldrich (seated), chairman of the board of the Chase National Bank, at the Senate's hearings on the banking bill. Leaning over Mr. Aldrich's shoulder is Francis Marion Law, former President of the American Bankers Association, who is president of the First National Bank, Houston, Texas

HARRIS & EWING

Creditor Position

George N. Peek, Special Adviser to the President on Foreign Trade, borrows figures from the Department of Commerce to show that, of the $18,864,000,000 invested by Americans in foreign securities between 1914 and 1933, all but $5,270,000,000 had been retired or repurchased and of this latter figure $1,940,000,000 were in default. In other words, in the opinion of Mr. Peek, Uncle Sam isn't much of a creditor after all except on war debt account which, of course, is about the same as saying not at all. Against these American holdings of foreign securities foreigners are credited with the ownership of $7,350,000,000 of American stocks, bonds and business interests and thus have a greater stake in the United States than the latter has in other countries, in spite of its tremendous lending in the past 20 years. These latter figures are not Department of Commerce figures and are open to challenge. In any event, drawing too definite a conclusion from such statistics is somewhat dangerous. There is no doubt that American investors have been extensively milked, bilked or whatever one wishes to call it, and that it is largely their own fault.

*

Life Insurance

There was 7.5 per cent less new life insurance produced in April than in April 1934, according to a report of the Association of Life Insurance Presidents to the Department of Commerce. The total new insurance for the first four months of 1935 was 5.2 per cent greater than for the corresponding 1934 period.

*

British Prices

The *London Economist's* index of British commodity prices stood at 67.2 on May 8 (1927=100). This compares with 66.7 two weeks before, 66.4 a month before and 60.4 on September 18, 1931, just before the suspension of gold payments by Britain.

*

Flotations and Dividends

New security flotations in New York amounted to $465,408,100 in April, the (CONTINUED ON PAGE 5)

The will to accumulate these sums is nerved with compulsion

★ *Reproduction of an actual maturity check. Name deleted for obvious reasons.*

THE BUILDING of a Living Protection reserve is undertaken with a complete understanding, on the part of the individual, that it is designed to be a *long-term investment.*

To assure this complete understanding, the application as well as the Contract itself, sets forth plainly the cash and loan values before maturity, including the fact that the first value is available only after the contract has been in force and payments made for eighteen months.

For the Company, this is a necessary protection. For the individual, it is an advisable curb against the early abandonment of a principle. In effect, the individual authorizes the Company to exercise the discipline necessary to maintain his or her adherence to a professed intention.

Consequently, our representatives are instructed to inquire personally into the reason for delinquencies . . . to encourage faithful performance and establish routine procedure during the period when good resolutions may easily be broken.

The relationship between the Company and the Contract holder continues as one of encouraging helpfulness. The individual recognizes and welcomes a mild form of discipline in order to achieve his desired objective.

Checks to a total amount of $442,412.83, in payment of maturities during March of this year, are concrete evidence that the Contract holders who received them were entirely successful in reaching *this* objective.

INVESTORS SYNDICATE

Founded 1894

LIVING PROTECTION

Offices in 53 Principal Cities . . . Representatives Throughout United States and Canada

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LAUNCHING TELEVISION.

A CASUAL reader of headlines, noticing that "R. C. A. Will Spend a Million on Television," reasonably might be pardoned a moment's thought that here was another government relief project.

But R. C. A. has nothing to do with FERA or TVA or AAA. It is the Radio Corporation of America. It is about to launch its own private and practical undertaking to transplant television from the laboratory into the home.

Here is $1,000,000 venturing out of hiding and into circulation. If these pioneer dollars yield the hoped-for result each will be followed by tens and hundreds of other dollars in a wave of further spending by company and public alike. This $1,000,000 is just a start.

The thought of television, of course, takes the layman's mind on a fantastic excursion to the unknown. Mechanically, it has been improved to the borderland of magic, else its extension would not be contemplated now. Its application opens up possibilities for pleasure as well as commercial communication such as only the technician as yet can comprehend.

But there is another aspect of television, equally loaded with promise, and that is in the field of finance and economics. The tapping of this reservoir is an event of the highest significance. It represents faith in the passing of hard times and a weighty factor to keep the balance tipped toward better times.

An important article in this issue is "Capital Street", by Charles R. Gay, starting on page 15

SOME articles on bank management in this issue: A Banking Connection; "Farley Imperforates"; Ledger Posting; Money Looks for Work; Frenzied Philately; Temporary Employees; Banking-by-Mail; Small Deposit Balances; Trust Examinations; Retirement Incomes; One Department for Insurance; Timely Lobby Displays; Import Insurance; Prevention Means Protection.

BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

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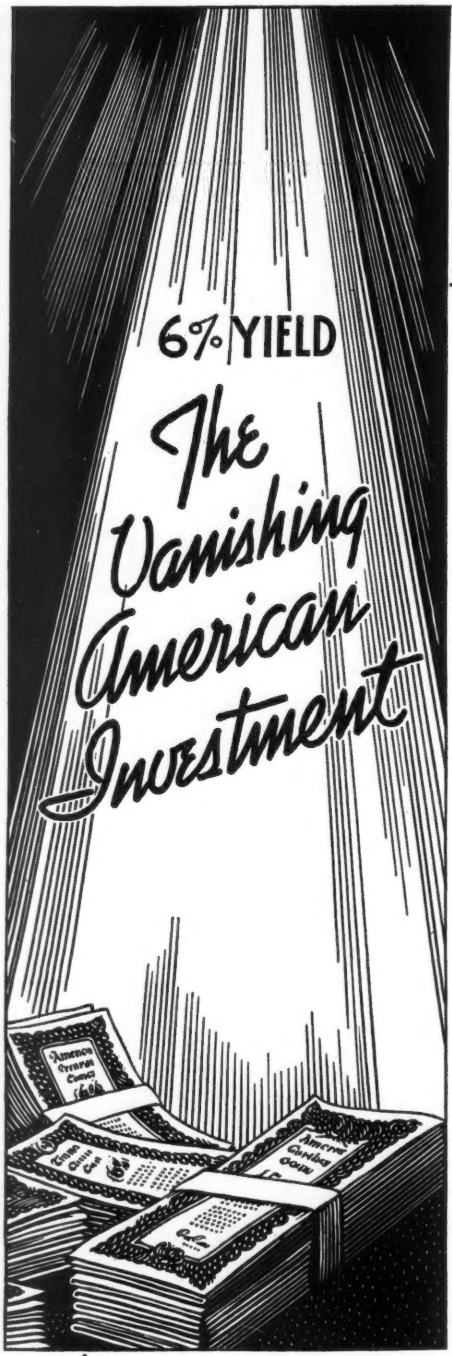


PROFITS are becoming more and more elusive for the average banker. With money rates at record low levels, with a dearth of acceptable local loan applications, the bond account has assumed increasing importance as an income producer. Prices of good bonds have gone up, yields have come down correspondingly. And now, to complicate matters, the shadow of refunding overhangs many issues.

The management of your bond account today demands far more consideration than ever before.

Why not let Moody's Supervisory Service help your bank as it is helping so many others? With Moody's staff of specialists searching out new investment opportunities daily, with Moody's *personal counsellor* to apply their findings to your bank's individual needs, you can go a long way in increasing the income, safety, stability of your bond portfolio. . . And at a modest fee.

Let us tell you about it.

MOODY'S INVESTORS SERVICE

JOHN MOODY, *President*

65 BROADWAY NEW YORK CITY

(CONTINUED FROM PAGE 1)
highest figure since March 1931. However, dividend declarations totaling $139,366,332 for 705 corporations were less than for April last year, when 627 corporations declared dividends of $175,667,316. The decrease was due chiefly to dividend cuts by oil and utility companies.

*

Income, 1934

The total farm value of all important crops, exclusive of livestock, rose in 1934 to $4,782,423,000, as compared with $4,114,265,000, in the previous year and $2,882,195,000, in 1932. "Farm Income—1934", The New York Trust Company *Index*, May 1935.

*

Savings Banks

"Proposals have been made in recent years for the complete divorcing of savings deposit banking from other classes of banking activities. Numerous reasons have been advanced for such a separation of banking functions. . . . However, your Committee does not feel that such a change in the present banking structure is necessary to the continued expansion of savings banks or that it need be advocated for that purpose."—Report of Committee on Extension of Mutual Savings Banks, Harold J. Staples, Biddeford, Maine.

*

Exports

Discussion of the situation of the American export trade, especially in such commodities as cotton, reminds one of the old song about never appreciating the water until the well runs dry. A good many producers of export products in this country, of which cotton growers are an outstanding example, have too long taken satisfactory exports as too much of a matter of course. There are other countries in this world which produce the same things which are grown in the United States and some of them can produce them as well as Uncle Sam. Eternal vigilance and efficient production methods are the price of selling things abroad.

*

Pension Act

Declaration of the unconstitutionality of the railway workers' pension act by the Supreme Court of the United States might have been more satisfactory had it not been the result of a 5 to 4 decision, but it would have been no more effective if the decision had been unanimous. This is a Government of majorities, legislative and judicial. The most significant thing about these 5 to 4 decisions is not that the court is divided but that there are so many acts of Congress on the border line of constitutionality.

*

Taxes

Much is made in current discussions of the fact that total taxes levied in the United States are higher or lower than in France, Germany, Great Britain or

PROCESSING TAX

With American cotton exports decreasing, hearings have been held in Washington to determine the advisability of discontinuing the processing tax. Below are George T. Dorr, president of the Cotton Textile Institute, George A. Sloan, Cotton Textile Code Authority, and Secretary of Commerce Roper

U. & U.

the isles of the South Seas. After all, such comparisons mean little. If France and Great Britain choose or are compelled to levy higher or lower taxes than those imposed in this country that is their business—or their misfortune. The point to be watched in the United States is the level at which taxation becomes too great a burden for American industry to bear in relation to the recovery of business and the prosperity of the people. That level is rather too close at hand to be comfortable.

*

Prices

World prices in terms of gold are stationary at around those of a year ago, which is another way of saying that had it not been for the drought in the United States there would have been continued deflation of commodity prices. In the United States, prices are still a long way from the level anticipated by the devaluation of the dollar, and the influence of the latter has all but disappeared in price adjustments in other countries. The long and short of the story is that there will be no improvement in prices until world trade gets to going. Before this can be realized there must be an end to tinkering with trade and industry all over the world.

*

New Homes

Just how many people are to be transferred from their homes in one part of the country to new homes in another part of the country in the expectation of improving their economic position is doubtful. The latest estimate is 440,000 families. If some parts of the country give so much more promise of happy and prosperous homes than others, one may well ask why they have not been occupied before this? The fact seems to be that the new locations are not so good as the old locations have been so bad. At that, it is probable that the worst of these locations would be a haven of opportunity to most peoples of Europe.

*

Germany

The announcement that Germany and the United States may get together on a new trade treaty, to take the place of one denounced by Germany last year, will carry more conviction of benefits to the United States if it will include some provision to protect American bankers and investors from the discrimination shown by Germany in the payment of commercial debts.

HARRIS & EWING

SENATE HEARING

Governor Eccles of the Federal Reserve Board, standing, testified before a Senate committee that the modified bank bill would "eliminate conflicts of jurisdiction and policy and at the same time would preserve the participation of Federal Reserve bank governors in the deliberations leading to the adoption of open market policies." In the center, Senator Townsend

More Abundant

There are more lobbyists in the halls of Congress at the present time than there ever have been before in the history of the nation. Each has some special interest to advocate or protect; most of them are reaching out to get their hands in the Treasury of the United States or to secure some financial benefit at the expense of other people; none of them are even professedly anxious to protect the interests of the American people as a whole.

*

Gold

April gold transfers netted the United States an addition of $129,279,900 to its gold stocks. Fear of devaluation in Europe and some other influences bring a steady stream of the yellow metal in this direction, but the United States is not the only country so affected—or afflicted. In the recent international gold movements Great Britain also accumulated about $150,000,000 worth of the metal, which went into private hoards. Such hoards in various countries are estimated at $2,000,000,000.

*

Insolvencies

"Business insolvencies in the United States and the Tenth District, during March and the first three months of 1935, were less numerous and the amount of liabilities involved smaller than in any like month or three months since 1920."—*The Monthly Review* of the Federal Reserve Bank of Kansas City, May 1, 1935.

*

Silver Speculation

"It is understood that (silver) speculators in London hold something like 100,000,000 ounces which they hope to sell to the United States Government. Incidentally, whatever trading profits are realized on the rise of silver prices will go largely to foreign speculators and dealers, and Americans operating abroad, the 50 per cent tax on silver trading profits in this country having driven this business to foreign markets." —May monthly bank letter of the National City Bank of New York.

*

Dollar—Pound

"The dominant factor in the situation is the dollar undervaluation, and in the opinion of many authorities economic adjustment will only ultimately be found by allowing the sterling-dollar rate to fall to $4.60 or even $4.50; it would, in fact, probably fall to this level if natural forces were allowed to exert their full effect on the exchange." —*Journal of the Institute of Bankers in Ireland*, April 1935.

*

Cotton

The world cotton conference at Rome has criticized the cotton policy of the United States, declaring that if this

QUARTER CENTURY

Titanic disaster

World War

The rise of Soviet Russia

Fascism

Lindbergh's flight

World depression

"New Germany"

Japanese ambition

And so forth


The Wor[...]
"...n Books Open to All."
"Circulation Books O[...]
NEW YORK, SATURDAY, MAY 7, 1910.

EDWARD VII. DEAD, NATION IS GI[...]
GEORGE, HIS SON, NOW REIG[...]

GEORGE V., NEW KING OF GREAT BRITAIN AND EMPEROR OF INDIA, AND THE QUEEN, HIS ROYAL CONSORT.

FROM THE NEW YORK WORLD

country does not modify its methods and bring its production more into line with world needs it will lose its world market. This comment is mild compared with some of the remarks on the course of cotton control authorities made by many American cotton producers themselves.

*

Protection

The State of New York now has a "Scotland Yard" of its own in a new bureau of criminal investigation. There is considerable prospect that a movement for greater activity on the part of state governments as distinct from local authorities in anti-criminal work will spread. With such state institutions cooperating with the national bureau under Attorney General Cummings in Washington, and with the protective work of the American Bankers Association, the scientific side of crime prevention and detection will be upon the highest plane possible. Even this, however, will be comparatively ineffective without dynamic public opinion in support of law enforcement officers in their efforts to rid the country of the menace of crime, one of the most disgraceful blots on American civilization and government.

*

Travel

Europe is luring the ubiquitous American tourist to its shores by reducing prices, and the result is that a third more passages have been engaged in the trans-Atlantic trade this year than in the same period last year.

*

Reciprocity

The inauguration of negotiations between the United States and France for a new commercial treaty is encouraging, but it may be well to remember that negotiation does not necessarily imply a successful agreement. Without offense and with due regard for international amenities, it may not be out of place to suggest that in dealing with France an observer may be reminded of Canning's ancient quip in similar circumstances:

"In matters of trade the fault of the Dutch,
Is offering too little and asking too much."

*

Machinery

The estimate of the National Association of Manufacturers that $20,000,000,000 in expenditures, which would employ 4,000,000 men for two years, is pent up in the field of factory expansion, rehabilitation and renovation alone is doubtless conservative if the industries of the United States are to make reasonable use of the most modern methods of industrial production. Probably it will come as a shock to many American industrialists that the criticism they have leveled against British and other foreign industrial methods and equipment as being out of date and therefore accountable for high production costs can now be applied to themselves.

*

Permanent Poverty

Any study of the figures seems to indicate that of the 20,440,000 persons on relief (CONTINUED ON PAGE 12)

AMERICAN CARS AND COTTON

In almost any large group of cars in Europe, many are American. For example, the automobiles entering the grounds of a German Government building, below. Alfred P. Sloan, Jr., president of General Motors, recently said: "Why are the world markets absorbing an increasing number of American motor cars and why are they absorbing a decreasing amount of American cotton? It is simply because they can buy greater value of motor cars in the world market from America than from anywhere else"


SOIBELMAN

(Continued from page 9)

at the beginning of the new work relief campaign something like 5,500,000 to 6,000,000 people will be on relief even if the new program proves as great a success as the Federal authorities anticipate. This five or six million compares unfavorably with the two to three million on relief before the depression. Complete explanation of the doubling of relief rollers is lacking, but there is little doubt that one explanation is the ease with which many people, heretofore self-supporting, can now draw their living from the Government.

*

Foreign Bonds

Arguments, under current conditions, that foreign bonds are worth more than their current quotations on American markets are likely to be received with arched eyebrows. However, it is significant that the chief activity in foreign bond transactions is now, and for some time has been, for foreign account. If foreigners find it profitable to buy back their own obligations at a tremendous discount, why isn't it likely that the bonds can profitably be held here?

*

Work Relief

Development of the P.W.A. program, especially its housing features, during the past two years has been greatly delayed through interference by, or a lack of power under, state laws. The same is true in varying degree of emergency relief, deposit insurance and several other Federal activities. The fact that few of the state legislatures which have been in session this year have passed any acts promoting cooperation between state and national authorities in such matters does not promise much for prompt and vigorous advancement of the works relief program for next year.

*

Deflation

While inflation continues the chief long range concern of bankers and investors generally it is worth noting that there is some immediate danger of being pinched by the deflation in the prices of several important commodities whose present price levels are being maintained by artificial means. In the long run prices can be maintained only at the level established by the free play of supply and demand, the alternative being increasing regimentation with increasing maladjustment in production and distribution, certain to end in loss and disaster. This applies to finished goods as well as to raw materials.

BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

JUNE 1935

Capital Street

By CHARLES R. GAY

President of the New York Stock Exchange

IN periods of great general stress established institutions which have won their spurs as authentic national servants are subjected to unreasoning criticism. The arraignment is, invariably, an unmodified enumeration of faults. Every institution is merely an association of human beings cooperating for a definite purpose, a purpose which may be educational, governmental, judicial, industrial, recreational, financial or social. The policies of these institutions are developed by men and women who are guided by standards established by similar men and women. What I am trying to say is that institutions are merely concrete functional expressions of human nature. They can be no better and no worse than the men and women who conduct them. If there is any statement that is universally accepted as correct it is that human nature is not perfect and that men in their strictly individual or institutional conduct betray faults and commit errors. This applies to educators, bankers, reformers, politicians, business men and brokers.

Faults and errors must therefore be normally expected in the operation of all institutions. It is the conspicuous merit of an open intelligence to recognize this not only as a general observation but as a particular observation applicable to the institutions in which we happen to have the most direct personal interest. I might note, parenthetically, that irritation and real danger result only when an individual or institution refuses to concede blemishes and insists upon perfection. The scholar whose knowledge is absolute, the reformer whose theories are infallible, the moralist whose conduct is impeccable, the business man who never makes a mistake—these are the insufferables who stand in the way of progress and provide the irritants of life.

The broader tolerance which has distinguished the American public in the past yielded momentarily to bitter hysteria during a period of grave stress in which men and institutions were judged only by their faults, faults moreover in whose proof and evaluation judicial detachment was not exercised. Clearly, if we are to condemn institutions solely on the basis of the blemishes which can be discovered, then education, organized religion, matrimony, even government itself, all stand in danger of extinction.

The only fair method of passing judgment is to weigh positive merits together with faults. In examining our social and economic institutions the degree to which they profit by errors and adapt themselves to new conditions—not the least of which is a higher standard of performance expected by public opinion—should be given great weight. Our stock exchanges are human institutions. Being human they have both faults and virtues. With the country on the road to recovery this is a fair and opportune occasion to assay the positive, beneficial contributions which the security market makes to our national life.

Although the physical center of the financial market is at Broad and Wall Streets in New York City, the arteries which sustain its activity and carry its vital services reach into every homestead and hamlet in the land.

FAIRCHILD AERIAL SURVEYS

San Francisco

Chicago

Consider first the manner in which the security market and the banking system of the country cooperate to touch with a life-giving wand the agricultural and business activity of the country. More than 63 million separate accounts are held by the banks in this country. This averages approximately two accounts per family, and demonstrates the amazing penetration of the banking system.

The banks have two general obligations to these depositors. The first is the safety of the deposits and the second their profitable employment so that the return will permit payment of bank costs and income to depositors in the form of interest.

To insure safety the banker has erected certain defenses. The first and by all odds the most important is the judgment of the banker in selecting risks. This is a strictly personal quality founded upon natural intelligence and conservatism and cultivated by experience. It cannot be formulated into a body of rigid rules administered by a distant authority. The second line of defense consists of a prudent apportionment of assets to categories which will enable the banker to realize funds promptly as they are called for by his depositors.

Here the banker encounters a difficulty the solution of which involves the exercise of the finest banking judgment. If he keeps his assets in cash he denies the community the use of this capital and at the same time dries up his earnings. Pushed to an extreme this means an inability to meet the costs of banking and to pay interest to depositors. In reconciling the conflicting requirements of liquidity and return the security market aids the banker and in aiding him serves the millions of depositors who have entrusted their funds to him.

FREELY OPERATING MARKETS

WITH a broad efficient market the banker is able to build up a portfolio of relatively stable senior securities to which he can turn if sudden drains of cash or adverse balances impair his reserves. It would be presumptuous on my part to discourse on the nature and value of this secondary reserve to men who know so much more about it than I do. I merely wish to point out that these reserves, dependent upon freely operating security markets, have played a highly important part in maintaining the ability of banks to meet the demands of their depositors during critical periods.

Banks often accumulate a temporary surplus of funds which are subject to immediate demand and cannot for that reason be invested even in the highly stable securities which constitute the secondary reserve portfolio. The call loan offers a solution for this problem. It is true that the return to the banker on this type of loan is negligible today. Yet in other years it afforded safety, protection against depreciation, some return, and the assurance of immediate conversion. Call loans did not freeze.

Securities bought and sold in an open market have played an increasingly important part in the normal operations of a bank. Business men and corporations have been able to satisfy the reasonable banking requirement for liquid security by using stock and bonds listed on an established exchange as collateral. The proceeds, contrary to erroneous but widespread assumptions, are not used invariably to make additional commitments in the stock market. At the end of February, 1935, loans on securities by member banks in leading cities aggregated $2,995 million. Of this total only $892 million, or 29 per cent, were made to brokers and dealers in securities. The proceeds of the balance were largely used to meet payrolls, to acquire necessary inventory, to purchase new equipment, to take advantage of an attractive business opportunity, to extend credit to customers and for other entirely legitimate business purposes which had no direct relation to market trading.

The presence of efficient security markets enables a business man to make complete use of his capital. This results in a higher return on the total capital invested in the business, makes it possible to turn out a superior product at the same cost or the same product at a lower cost, to pay higher wages, or all these in varying combinations. This is the little noted substance from which a higher standard of living grows.

Thus the security markets operating with and through the banks afford added protection to bank depositors by giving to a larger fraction of bank assets the quality of liquidity. The opportunity to use funds productively which otherwise would be maintained in cash increases the return to depositors in the form of interest. Finally, by permitting business men to use their capital more effectively, security markets stimulate the stream of production and thus promote a higher standard of living. The stock exchanges on careful and detached examination reveal themselves not as inbred, self-centered institutions concerned alone with the profits of security traders, but rather as truly national institutions whose real interest is found in the service of the Main Street merchant, the factory hand and the farmer in every corner of the land.

The savings banks particularly perform an invaluable and perhaps imperfectly appreciated service in investing the funds of people of modest means. The management of a bank constitutes a group of responsible and skilled investment counsellors who take deposits, and invest them as well as their wisdom and opportunities permit. They guarantee the integrity of the principal, a steady return and instantaneous liquidity. It is a fortunate and safe arrangement for the citizen with a modest nest egg.

Due to the broad diffusion of prosperity in this country an exceptionally large portion of our citizens enjoy an income which makes it possible for them to invest directly.

EWING GALLOWAY

FAIRCHILD AERIAL SURVEYS

New York

CAPITAL STREET

"The stock exchanges on careful and detached examination reveal themselves not as inbred, self-centered institutions concerned alone with the profits of security traders, but rather as truly national institutions whose real interest is found in the service of the Main Street merchant, the factory hand and the farmer in every corner of the land."

It is here that the broader economic and social justification of security markets becomes conclusive.

Weigh the importance of thrift first from the point of view of the individual, second as a factor in social stability and finally as a condition of economic progress. There are innumerable homely proverbs to the effect that Providence favors those who have the foresight, energy and will power to take care of themselves. A number of current panaceas on the other hand extol the vital philosophy of the grasshopper, i.e., that the fruits of life's harvest should be consumed as they are garnered with no provision for Winter. Although they have made sensational public appeal, the fact remains that the great bulk of Americans are too sensible to yield to the seductive lure of visionaries. Our solid citizens much prefer to emulate the bee with its energetic provision for the future. I know of no general plan, no form of political beneficence or organized charity which can take the place of individual self-help. Furthermore, it gives the individual a material stake in the society of which he is a member and strengthens his resistance to the appeal of subversive schemers.

The most important aspect of thrift is the economic, and it is here that the organized security market exercises its broadly penetrating and valuable services. The importance of thrift can best be demonstrated by reducing it to the simplest of cases. If a man working independently and producing the essentials of life such as food and clothing consumes everything, he can make no provision for emergencies. If all his energies are required for current needs he will not be able to make the tools that will increase his output. Thus 100 per cent consumption means a denial of insurance against the risks of life and also a failure to raise the standard of living.

In an article of this scope it is difficult to demonstrate and impress the importance of this observation. The margin which is spared from current income by the citizen with foresight is the source of the nation's capital. Without thrift there would be no capital and without capital there would be no reserve to tide the individual and the community through periods of distress. The destruction of capital, and the security markets which serve it, would set back the hand of progress and restore the crude primitive conditions from which the intelligence and self-denial of generations of forbears have emancipated us.

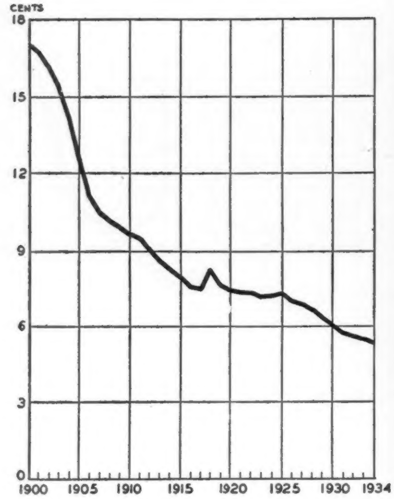
The importance of capital in providing the physical equipment which multiplies the output of labor, reduces costs and increases wages may be best illustrated by the facts set forth in an advertisement which appeared in the *Charleston City Gazette* on May 12, 1795, about three years after the birth of the New York Stock Exchange. The ad offered an iron foundry for sale and submitted details of operating conditions which throw an interesting light on costs of production, wages and real income of the worker at a time when modern industrialism was in its infancy, capital scarce and security markets just beginning to function.

The workers were paid in pounds of cast iron, and here is the interesting relationship between the value of the product, the wages paid to the workers who produced it and the living which those wages made possible. The cast iron had a value of $182.25 a ton. A common laborer received 100 pounds of iron as a monthly wage which would buy 12.5 bushels of wheat. The working day was 12 hours. The difference between this condition and the price of iron, wages to workers and their buying power today is due entirely to the enormous accumulations of capital which have been applied to the production of iron, accumulations which would not have been possible without organized security markets or, if possible, could not have been applied effectively in industry.

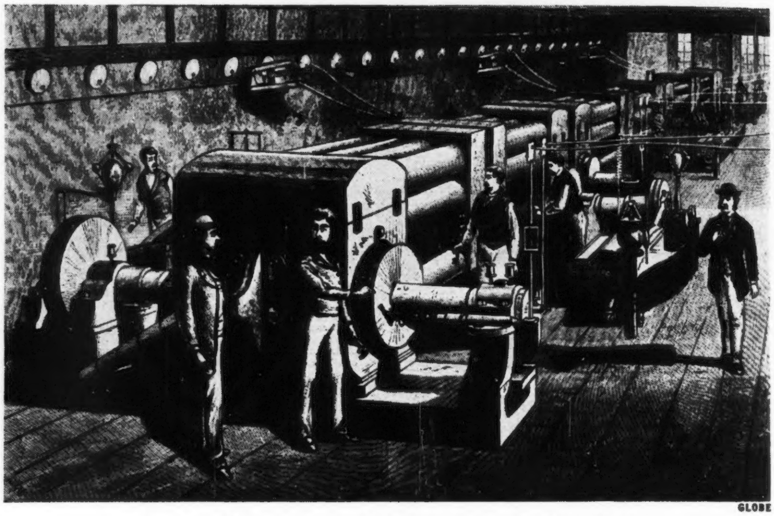
CAPITAL AND PROGRESS

LET us measure then the progress which is attributable to capital and its effective application to the iron industry. A long ton of Valley pig iron may now be purchased for $18.00, a drop of 90.1 per cent from $182.25. The worker in a blast furnace or rolling mill during February 1935 was receiving $103.13 a month, working 5 days each week for 7.1 hours a day. His earnings for the month would buy 12,834 pounds of iron—an increase of 12,734 per cent over the 100 pounds which a month's labor received in 1795. In the latter year it was necessary for this man to work ten years and eight months to produce as much iron in the form of earnings as he can today during a single month. His money earnings today, for this period, will buy 92 bushels of wheat—an increase of 636 per cent over the 12.5 bushels which they purchased in 1795.

Here then are the concrete facts touching, intimately and continuously, the daily life of the average citizen which justify capitalism and the security markets without which capitalism cannot function. Can any one say without absurdly distorting the plain facts that the decline in the price of pig iron, the reduction in the hours of labor, the rise in the earnings of the worker and the increased buying power of his



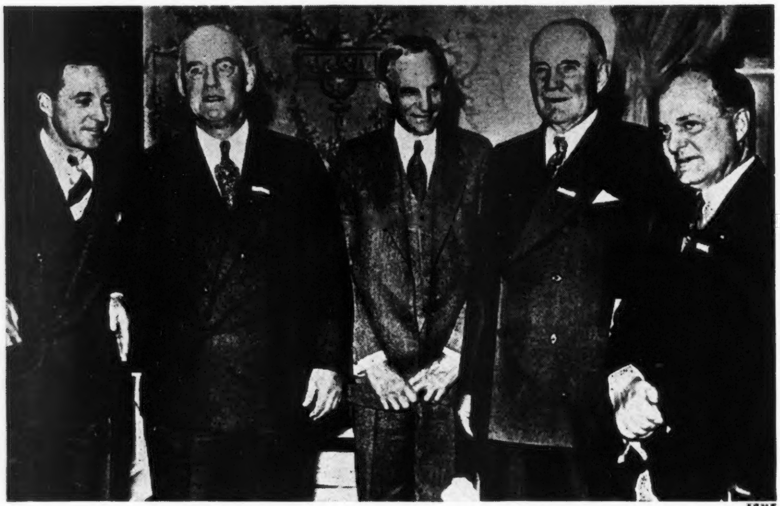
Cost of electricity per kilowatt-hour for household use in the United States



GLOBE

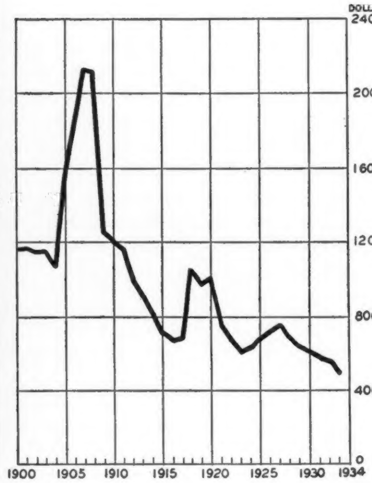
The first Edison electric lighting station in New York

Edsel Ford; Alvan Macauley, president of Packard Motor Car Company; Henry Ford; Charles W. Nash; and Robert Graham — automobile manufacturers at the Convention of Agriculture, Science and Industry recently held at Dearborn, Michigan



ACME

Wholesale cost per unit of all motor cars manufactured in the United States



The free flow of private capital has been the chief factor in raising standards of living

income have benefited only the bankers and the capitalists?

The transformation which the application of capital to the iron and steel industry has effected in the condition of the worker in that industry and the consumer who buys its products has been duplicated in thousands of other cases in the same striking manner. Our security markets have been vitally instrumental in the diffusion of these benefits. The great aggregations of capital which built and equipped our modern steel plants were made possible through the market provided by the country's stock exchanges.

Few individuals possess the funds necessary to construct the plant and equipment of a great corporation. Even where individual wealth is sufficient for the purpose it is not wise to concentrate investment in a single venture. A security market makes it possible for thousands of investors, each with limited commitments, to own a great corporation. It facilitates the diversification of individual accumulations. In this way security markets promote industrial progress and sound investment. These are the objectives, earnestly and successfully pursued, which make the stock exchanges national institutions.

By J. W. MILLER

Wasteful Economy

". . . I seriously doubt if the lowest paid bank employee, picking up stray rubber bands all day long, could save enough to offset his salary."

CERTAINLY no one should belittle the efforts of the bank official in charge of operations who utilizes every means at his disposal to impress upon his employees the importance of economy. Present bank operating margins are so small that nothing should be overlooked which might reduce the bank's expenses and consequently increase its net earnings. But in all this search for economy many bank officials seem to have become "penny-foolish."

Executive officers are worrying about the $75-a-month clerks for fear they may be going through some wasted motions in their daily activities, while they are entirely indifferent to the lack of efficiency in their personal office routine. How many times have you seen an executive performing some messenger or clerical duty which a $20-per-week clerk could have done more efficiently? How often have you seen an officer step to an adding machine and very clumsily finger the keys in an effort to accumulate a total for a group of figures?

I have been told of a very highly paid executive of a certain bank picking stray rubber bands off the floor. His reason may have been to impress upon his employees the importance of economy in general and not the mere saving of the cost of rubber bands. On the other hand I seriously doubt if the lowest paid bank employee, picking up stray rubber bands all day long, could save enough to offset his salary.

Among the smaller banks there are many officials who point with great pride to their rigid economy. Their equipment for all practical purposes is worn out and obsolete, but to them this is more evidence of their economical supervision. Is this economy? Generally speaking, any methods, procedure or mechanical devices which have become obsolete for any reason, or the use of which has become wasteful of time because of age, are costly to the bank. Old equipment inevitably slows up operations and in the end results in a greater expense.

In many of the medium-sized banking institutions we find the busiest men are the officials. Generally this is because they are occupying their time with details and routine transactions which should be handled by the clerical force. The officers' time should be free for the investment of the bank's funds, the planning and supervision of operations and the contacting of customers.

It is not unusual to run across bank auditors whom this type of criticism fits perfectly. There are those who seem to have lost the practical viewpoint of different portions of their duties and insist that every penny of bank income must be accounted for. I think this is absolutely correct until the cost of auditing amounts to more than the value of the items audited. My reference is to some of the ordinary miscellaneous income items which would not amount to more than a few hundred dollars a year in the small and medium-sized banks. It certainly is wasteful economy, regardless of the viewpoint taken, for an officer of the bank to occupy his time with such incidentals. I do not advocate the complete disregard of these small items but I do think the correctness of the figures can be approximated accurately for all practical purposes.

Theoretically, the perfect organization from an operating standpoint is the one in which all officers and employees busy themselves with only that type of work which is commensurate with the salaries they receive. Of course, we are all human and to expect such a model set-up would be out of the question. However, it is my contention that were this policy carried out to its fullest possibilities most of our banks would find themselves over-officered and with a corresponding shortage in clerks. If this is true it proves that the salary expense item in most banks is unnecessarily high and can be reduced by placing the work where it belongs. This is the goal for which all bank managements should strive if they desire to attain the highest efficiency possible in internal bank operations.

OLD METHODS

"Generally speaking, any methods, procedure or mechanical devices which have become obsolete for any reason, or the use of which has become wasteful of time because of age, are costly to the bank

BROWN BROS.

How Per Item Costs Vary

THE fact that stands out from these figures is that there is no such thing as an "average cost" of handling an item; that no bank can safely use, as the basis for its computations, the costs worked out by another bank, even in the same region. Every bank which wishes to base its service charges and account analyses on costs needs to make its own analysis of its per item costs.

BANKS which are instituting analysis of accounts or service charge schedules frequently ask, "What is the average cost of handling an item?" It is necessary to have some item cost or costs as the basis for analysis charges or service charges, and the average bank immediately thinks of using the "average" or typical cost.

There is no categorical answer to be made to such a question, any more than there is to the question, "How much does it cost to manufacture an electric light bulb?" It costs different amounts to manufacture different types of bulbs and different amounts to manufacture the same type of bulb in different factories. So, too, item costs in banking vary not only with the type of item, but also with the bank handling them.

As illustration, actual per item costs for eighteen banks in two adjoining clearinghouse associations in the same state may be cited. These figures, recently available to the Bank Management Commission of the American Bankers Association, were all worked out by one accountant (who specializes in this type of work) and are, therefore, computed on the same basis. Yet the difference in the resulting figures may be noted in the table on this page.

The cost of handling a deposit ranges, it will be noted, from 4 cents in Bank Q to 8.3 cents in Bank G. The cost of paying a check on "us" varies from 3 cents in Bank Q to 6.29 cents in Bank A. The cost of handling a transit check varies from 1.82 cents in Bank B to 3.53 cents in Bank A. Clearing checks cost anywhere from .42 cent in Bank O to 1.11 cents in Bank A. (Some banks are located in towns in which there are no other banks and hence handle no clearing checks. For these no costs for clearing checks are computed.) The earning rate varies from 3.32 per cent in Bank A to 7 per cent in Bank Q.

The question which inevitably arises from an examination of this table is: "Why so great a variation in costs among banks apparently so similarly situated?" To this, likewise, it is not possible to make any categorical and detailed answer. A study of the figures suggests that probably no one factor can be used in explaining these variations.

Sometimes the type of business a bank handles is responsible for the variation in its per item costs. A bank handling mainly accounts in which both deposits and checks are for large amounts will have different per item costs from a bank which has a large number of chain store or other retail accounts which deposit and draw a large number of small checks.

The volume of business is also a determining factor in per item costs. In many banks the present staff of employees could handle a considerably larger amount of business than is at present available, yet the staff cannot be reduced if present business is to be handled efficiently. In other banks where volume is as large as the staff can handle in the normal working day the per item costs are usually substantially lower.

There are, of course, other reasons for the variations in per item costs, depending on special factors existing in a particular bank.

PER ITEM COSTS IN 18 BANKS

Bank	*Deposits*	*Paid Checks*	*Transit Checks*	*Clearings*	*Earning Rate*
A	$.0782	$.0629	$.0353	$.0111	3.32%
B	.0504	.0424	.0182	.0057	4.08%
C	.076	.049	.026	—	4.7%
D	.064	.049	.021	—	4.0%
E	.065	.05	.025	—	3.5%
F	.076	.046	.0192	.0057	4.5%
G	.083	.052	.025	—	4.5%
H	.0503	.045	.025	.0056	4.62%
I	.057	.043	.026	—	4.68%
J	.0405	.047	.024	.0055	4.75%
K	.048	.048	.025	.005	4.75%
L	.05	.045	.03	—	4.75%
M	.062	.045	.026	.0056	4.6%
N	.05	.04	.02	.005	4.6%
O	.056	.043	.023	.0042	4.75%
P	.044	.056	.024	—	4.8%
Q	.04	.03	.025	.005	7.0%
R	.05	.045	.03	—	5.5%

Loss Prevention In 4 Lessons

STATE POLICE

Alert and active state police and efficient local officers and protective devices will do much to do away with bank robbery, but in my opinion it is up to us to make the business unprofitable to the professional robbers by keeping as little cash as possible exposed and keeping reserves under time lock. A few minutes delay might effect the capture of the gang; otherwise they might take hurried leave with a much smaller amount in cash. —The Author

By IVY E. RUSSELL

The author is cashier of the Bank of Avilla, Avilla, Missouri. In May BANKING he read an article entitled "Robbery in 5 Minutes" and here sets forth his own experience

OUR story might well begin: "It has happened to us four times in three different ways." Here are the chronology and the details:

Experience No. 1. On entering the bank premises one morning in 1920 I had my attention attracted from inside the cage and turned to look into the muzzle of a revolver and into the eyes of a robber whose face was otherwise covered by a handkerchief. He was dressed as an automobile mechanic.

He seemed nervous at first but quickly regained his composure and ordered that the vault and safe doors be opened. Transferring the contents of the safe to a handbag, he locked me inside the vault and departed by way of the back door.

An alarm connection with the telephone exchange brought me assistance. A posse was organized and the robber was caught about 2 o'clock the same afternoon. I identified him by the expression in his eyes; he had changed his clothes. In due time he pleaded guilty and got a 15-year sentence. The money was recovered.

Experience No. 2. About 1927 an attempt was made to haul away our 3,200-pound steel safe which is kept outside the vault. The men abandoned their job before they succeeded in getting the safe on a truck; apparently it had fallen when the loading skids broke, for it was found on the front step of the bank. There was no money loss.

Experience No. 3. About the year 1930 a gang of three men attempted to accomplish what the first safe-hauling crew had failed to do. They succeeded temporarily. Bringing from the mining district a truck equipped with a winch, they got the safe aboard and we found it the next morning some 30 miles away from its accustomed place. No attempt had been made to open it. The three men were caught the same day and are now in prison.

Experience No. 4. A few minutes before 2 o'clock one afternoon an unmasked bandit, waving a revolver, rushed into the bank and advised us that a holdup was about to be staged.

With an oath he shouted: "So this is the little bank that can't be robbed? I'm going to do the job this time!"

Just then his accomplice drove up to the front door coincident with the passage of a funeral procession. In the bank were a woman customer, a bookkeeper and myself. The patron, in the lobby, was told to sit at a table and keep quiet. The bandit entered the cage and ordered the bookkeeper—a woman—and me to lie face downward on the floor.

After looking over the premises he directed me to get up and open the safe. At this point a man entered the bank. The robber hustled him inside the cage, forced him to lie down and searched him for a weapon.

Then the safe was opened and its cash, together with the contents of the cash drawer, were turned over to our unwelcome visitor, who placed the money in his pockets and shirt front. Commanding me to stand at my accustomed place facing the outer door, the bandit tried the bolts to the vault door, closed it and, when it failed to open, directed me to go outside with him.

We entered the waiting sedan and I had to lie face down while he sat on the seat above me. The accomplice drove. Immediately after reaching a main highway my hands were tied with adhesive tape. We rode five miles. Then the car stopped and I was directed to slide out on my stomach, face in the opposite direction and crawl through a hole in a hedge into a wheat field. There I was (CONTINUED ON PAGE 64)

By J. HOWARD ARDREY

Deputy Administrator of the Federal Housing Administration. Mr. Ardrey was formerly a vice-president of the Guaranty Trust Company, New York

Insured Mortgage Loans

BANKERS have had a great many abnormal problems to cope with during the past few years. They have been the focal point for much of the economic disturbance brought on by the depression. Today many of their problems have been solved, or are nearing solution, but among those remaining probably one of the most preplexing is the real estate and mortgage loan situation with which they are still confronted.

The problem has many angles and concerns every banker in this country. Naturally the banker with mortgage loans in his portfolio and with real estate in his investment account is most immediately concerned. But irrespective of whether he lends on real estate or not every banker realizes that a substantial portion of his loans and investments are affected by the collapse of real property values and the demoralization of the mortgage market, which were concomitants of the depression.

It is recognized that the solution to the problem lies in the revival of the real estate market and a return to normal realty values. It is not an easy solution. Primarily it depends upon confidence. The property owner and the potential property owner must believe that real estate is a sound investment. The lender or the potential lender must believe that real estate constitutes sound and desirable security for the money which he is called upon to lend.

At the same time, the thoughtful banker realizes that steps must be taken to correct the different points of weakness in the mortgage loan system which contributed so largely to the plight in which real estate finds itself today.

Realizing that the problem was too vast for private initiative to cope with, Congress, under the leadership of President Roosevelt, directed its attention to a solution. The first step was to relieve mortgage distress where it was most acute.

For the benefit of distressed lending institutions Congress empowered various existing and newly created Government agencies to aid with credit. The Reconstruction Finance Corporation was authorized to lend to mortgage loan companies. Federal land banks were given wider scope. The home Owners' Loan Corporation was established for the relief of borrowers. The home loan bank system was brought into existence to provide credit facilities for savings banks, building and loan associations, and other such mortgage lending institutions which found themselves with frozen portfolios. These and other measures were addressed to the problem of immediate relief and depended upon Government credit.

NATIONAL HOUSING ACT

THE next step was to remedy the fundamental defects in the general system of mortgage credit brought out by the breakdown and to revive the interest of private capital in what was once the most popular form of investment in this country, real estate and mortgage loans. The result was the National Housing Act. This measure has many ramifications and its full significance is not yet appreciated. It gives promise of taking a place as one of the most important pieces of New Deal legislation.

The several phases of the act are covered by subdivisions designated as "Titles". The banker is chiefly concerned with the first three.

Title I tackles the problem of getting the property owner to utilize stagnant credit for the repair of buildings that have deteriorated during depression years, and for the modernization of structures overtaken by obsolescence. To accomplish this it was necessary to stimulate interest in rehabilitation and at the same time to induce reluctant lenders to extend the necessary credit. Both of these objectives have been attained in gratifying measure. Bankers and business men in general have lent enthusiastic cooperation and support. The public has responded in a way that gives heartening proof of the deep-seated confidence of the average American in the future of his country.

As was expected, results have been realized far in excess of the actual credit employed under the insurance provisions of Title I. The impetus that has been generated should go far in the revival of the building industry, with everything that it implies. Title I of the act, however, comprises a temporary phase, as its provisions expire on December 31, 1935. Congress is now considering a measure which, if enacted, will extend the expiration date to April 1, 1936, and considerably broaden the scope of this phase of the act.

The most far-reaching provision in the act is the plan of mutual mortgage insurance embraced in Title II. Although designed essentially for the home owner and prospective home owner, the effective application of the plan should reestablish the soundness of well made real estate loans in general and stabilize property values of all kinds.

It is based in part on similar plans that have been in operation in Europe for many years, adjusted to conform with American needs and conditions. The essential features can best be explained by an outline of the method of operation.

The first step is for the borrower to make arrangements for a loan from a lender approved by the Federal Housing Administration. An application is filled out by the borrower and titles are searched and appraisals made in the usual manner by the mortgagee. If the mortgagee desires to make the loan, it is submitted to the Federal Housing Administration for insurance. If, after the necessary investigation and appraisal, the property meets all requirements, and all conditions surrounding the loan are satisfactory, the Federal Housing Administration will accept the loan for insurance. The borrower pays the premium, ranging from ½ per cent to 1 per cent, depending upon the transaction involved.


HARRIS & EWING

Ten Months' Operations

"IN less than ten months after starting from scratch, the Federal Housing Administration, under Title II of the National Housing Act, is doing a mortgage insurance business of a million dollars a day, and the volume is growing rapidly," writes Mr. Ardrey (left).

"Tremendous administrative tasks were involved in setting up a new system of this kind, with offices in 62 cities throughout the country. Changes in the laws of many states had to be effected and different mortgage instruments prepared for every state in the Union.

"On April 30, 4,581 institutions had been approved to make insured mortgages. Included in this group are 3,616 banks, 884 savings, building and loan associations, 55 insurance companies and 26 miscellaneous companies, having aggregate resources in excess of $32,000,000,000. These institutions with their branches provide 6,875 offices in all parts of the country where applications may be made for insured mortgage loans. Up to the close of business on April 30, 7,557 applications for insurance on home mortgages had been made to the Federal Housing Administration aggregating $31,000,000. Applications for low cost housing projects had been received aggregating over $223,000,000."

In event of default the mortgagee forecloses in the usual manner and, when he gets possession, turns the property over to the Federal Housing Administration. In exchange he receives debentures payable three years after the original maturity of the mortgage for an amount equal to the then face value of the loan plus taxes and insurance on the property paid by the mortgagee after the default. These debentures are guaranteed by the United States, both as to principal and interest, when issued in exchange for property securing mortgages insured prior to July 1, 1937. In addition to the debentures, the mortgagee receives a claim certificate covering unpaid interest on the note, foreclosure costs and other normal expenses involved in taking possession of the property and turning it over to the Federal Housing Administration.

The Federal Housing Administration, at its discretion, sells the property and upon its disposal utilizes the proceeds to retire the debentures, and reimburse itself for interest paid thereon and other charges involved in the management and sale of the property. The remaining amount is applied toward retiring the claim certificate, plus 3 per cent increment thereon. After caring for these items, any balance remaining is returned to the mortgagor.

The latter is probably one of the most revolutionary features of the entire plan. For the first time in the history of mortgage lending, the mortgagor receives back whatever equity remains after the disposal of his foreclosed property. This removes one of the basic risks heretofore taken by the purchaser of a home who was obliged to carry a mortgage against the property, or the home owner who found it necessary to encumber a clear piece of real estate with a mortgage debt.

Insofar as the lender is concerned, the advantages of this plan will be clear to the banker who has found his mortgage loans converted into frozen investments in real estate, in most instances unproductive and costly. Under an insured mortgage he would be certain that he would never be obliged to take possession of the underlying property except in the interim of giving title and possession to the Federal Housing Administration. Bankers who have been obliged to take over real estate will realize the attractions of disposing of such property, as and when it may be sold, on an insured basis where such mortgages meet the requirements.

Inherent in the plan are safety factors for the protection of each party at interest, which will undoubtedly make the potential home owner more inclined to risk his savings in making a partial payment on a home and induce timid capital once again to lend on mortgage security.

To operate successfully a plan of this kind, radical departures from existing methods are obviously necessary. The plan outlined in Title II of the act and elaborated in the regulations embraces various requirements considered essential. The major provisions are set forth below.

(1) Monthly amortization of principal and interest. The purpose of this provision was to eliminate the inherent dangers to both the mortgagor and the mortgagee as well as to our entire financial structure, in the prevailing system of lump payments. It was incorporated in the act after exhaustive investigation by Congress. The successful experience of instalment purchasing during the depression demonstrated that the soundest possible method of financing debt by people with monthly incomes is a plan that requires regular monthly payments.

(2) Anticipation of taxes, special assessments and fire and general hazard insurance premiums by monthly deposits in advance with the mortgagee sufficient to make the payments when due. The wisdom of this provision needs no explanation to the banker who has seen far too many instances of property owners coming in for supposedly short term loans a few days in advance of tax dates to obtain money for payments that the borrower knew a year ahead would be due. From a credit standpoint it is fundamental that a person with a monthly income of $100 can take care of monthly payments of say $10 when he would find it extremely difficult or impossible to make an annual payment of $120.

(3) Loans up to 80 per cent of the appraised value of the property, thereby eliminating the necessity of junior liens. This class of paper, with the high rates generally exacted, has long been recognized as one of the weakest and most undesirable elements in the prevailing system of mortgage lending. The added burden has worked undue hardship on borrowers, and in the great majority of cases has greatly increased the difficulty of making proper reduction on principal. Certainly, any equity the owner might have has been jeopardized.

(4) Basic rate of interest 5 per cent and in some cases 5½ per cent. Under special circumstances where the mortgage market demands it, the Administrator is given discretion to allow rates up to 6 per cent. Under present conditions, however, no rate in excess of 5½ per cent has been allowed. These rates are maximum and are not mandatory, and the mortgagee may lend at any lesser rate which he chooses. While mortgage money is available in some parts of the country at comparable rates, it is common knowledge that the great volume of our mortgage debt has been financed on a higher basis. Certainly this is true in most parts of the country which do not have access to the large concentrations of capital in the leading financial centers.

RECONSTRUCTION

IN considering the provisions of the act, it must be kept in mind that Congress did not intend Title II as a measure for the immediate relief of distressed borrowers or lenders. The whole philosophy of the act looks to the reconstruction of our existing system of mortgage lending on a sounder basis which will minimize the possibility of a collapse such as we have just gone through. Neither was it intended that the entire home mortgage debt of 21 billions would be rewritten on an insured basis. The total amount of insurance that can be written under the act was limited to $1,000,000,000 on old construction and $1,000,000,000 on new construction. Should it prove desirable, these limits may be raised by the President. But obviously it was contemplated that only a portion of the existing mortgage debt in the beginning would be refinanced on an insured basis.

The intention behind this limitation and the other requirements stipulated was that a high degree of selectivity was to be exercised by the Administrator in accepting mortgages for insurance. Insured loans were to be of the very highest type. High standards were expected to be applied in passing upon the borrower, as well as in appraising the property. Only the soundest risks were expected to be insured. The mutual mortgage insurance system was intended to stand on its own feet. It was not contemplated that the Government would be obliged to provide additional funds other than the amount originally granted to get the machinery started.

One of the outstanding weaknesses in the old system of mortgage lending was that too little attention was given to the borrower's capacity to pay at maturity. This was the natural outgrowth of the prevailing expectancy that mortgages could be renewed ad infinitum. But in a system requiring monthly payments over periods running up to 20 years, it was recognized that borrowers of necessity must come up to high credit requirements. It was also realized that, to extend long term credit of this nature safely, properties must be judged to have an anticipated value throughout the entire life of the loan to protect the lender. It was, therefore, necessary to require thorough appraisals on the most scientific possible basis. Incidentally, the insistence by the Federal Housing Administration upon standardized and scientific appraisal methods is one of the real benefits conferred upon both the borrower and the lender under an insured mortgage. At the same time, Congress definitely had in mind that this requirement would have a salutary effect on housing standards as a whole.

It was thus anticipated that the plan of mutual mortgage insurance would have a stabilizing effect on real estate values and mortgage credit in general.

The third Title of the act is also of special interest to the banker. It embodies a system of privately owned national mortgage associations chartered by the Federal Housing Administration. It is stipulated in the act that these associations must have a minimum paid-in capital of $5,000,000. It has been felt in some quarters that this figure is too large, and the Federal Housing Administrator has recommended to Congress that the act be amended by reducing the capital requirement to $2,000,000. The capacity of these associations to purchase insured loans is expanded by the power conferred upon them to issue debentures up to 10 times paid-in capital when supported by such paper. The Administrator also recommended to Congress that this power to issue debentures be increased to 15 times capitalization. The purpose of organizing these associations is essentially to make a market for mortgage loans insured under Title II. At the same time, through the sale of debentures, they will provide a medium by which mortgage money can be made to flow from the capital centers to every part of the country.

The banker will immediately perceive that when the necessary capital is subscribed and national mortgage associations become operative, insured mortgage loans will have a degree of liquidity never enjoyed by real estate loans in the past.

In this connection, it is possible under the regulations for an approved mortgagee to sell insured mortgages to any other approved mortgagee. In this way the door is opened for the development of an active market for a standardized investment among approved institutional investors normally interested in purchasing this class of paper, such as insurance companies, savings banks and other like institutions. When the many sound advantages of the plan become generally recognized, it is expected that a considerable market for insured mortgage loans will develop along these lines.

Recent changes in the administrative rules and regulations permit an ap-

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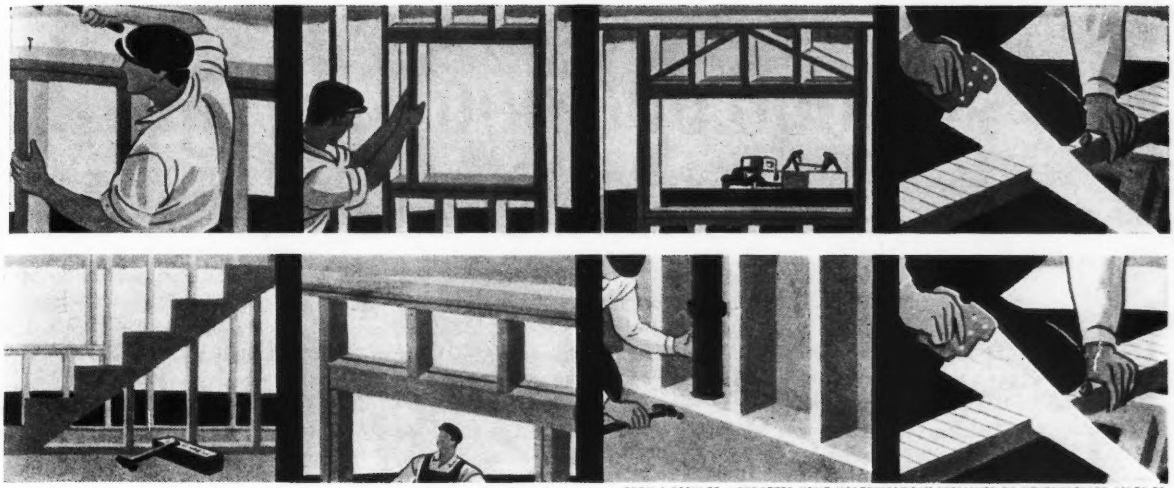
COMPTROLLER'S RULING

Comptroller J. F. T. O'Connor (left) has issued an important ruling in connection with home mortgage loans. In a letter announcing his ruling to the Federal Housing Administrator, Mr. O'Connor wrote: "Because of the insurance provided for loans of this type and because debentures of the Mutual Mortgage Insurance Fund in exchange for property securing mortgages, which are insured prior to July 1, 1937, shall be fully guaranteed as to principal and interest by the United States, national bank examiners will be instructed not to classify such loans held by national banks as slow, doubtful or loss."



FROM A BOOKLET "BUDGETED HOME MODERNIZATION" PUBLISHED BY WEYERHAEUSER SALES CO.

proved mortgagee to invest fiduciary funds under its control in insured mortgages, under the provisions of Section I, paragraph 4, reading as follows:

"Approval of an institution as a mortgagee under this Section shall be deemed to constitute approval of such institution when lawfully acting in a fiduciary capacity in lending fiduciary funds which are under its own or joint control; upon the condition and obligation on the part of such approved mortgagee that it will continue to be subject to all the obligations of an approved mortgagee under the contract of insurance after the termination of such fiduciary relationship and until the mortgages are paid or the contract of insurance otherwise terminated."

Under this provision it is now possible for an institution with a trust department to obtain the benefits of mutual mortgage insurance for its trust accounts wherever the size and character of the trust make such an investment desirable. However, it will be obvious that insured mortgages do not present a practicable form of investment for many trusts by reason of the monthly repayment of principal in amounts too small to reinvest, unless a large block of such mortgages is held. In the case of trusts where it is not possible or practicable to hold a large block of insured mortgages, an investment based on such paper will be available through the medium of debentures of national mortgage associations created under the provisions of Title III.

Together, the plan of mutual mortgage insurance provided under Title II and the system of national mortgage associations made possible under Title III constitute a development in American finance that warrants careful consideration by every banker in this country.

Mortgage Study

THE country's real estate mortgage structure has long resembled the scattered pieces of a gigantic jig-saw puzzle, with regard to lending agencies, types and terms of loans and sources of money. The Federal Government hoped to be able to fit some of the pieces through the instrumentality of the National Housing Act; at the same time, however, the creation of new public agencies has served to complicate still further the widely ramified component parts.

The nation's real estate debt is widely distributed. The leading types of institutions which have substantial portions of this indebtedness would be easy to list but the task becomes more formidable when one tries to determine the present and potential investments of building and loan associations, insurance companies, private mortgage organizations, trust companies, national banks, cooperative associations and the various Government agencies. In addition to their diverse identities, these creditor groups have different practices, activities and functions. That they overlap at numerous points is inevitable, but the extent of the duplication has never been clearly determined.

Group representatives of four types of real estate mortgage holding institutions—savings banks, trust companies, life insurance companies and building and loan associations—are seeking a common ground for thought and discussion between these organizations and the Government lending agencies which now have extensive mortgage interests.

The services of a research organization were engaged to make a survey of the country's real estate mortgage structure, the purpose being to provide, for the first time, a composite view of this vast financial network in the hope that new lines of coordination for the private and public units could be discovered. Direction of the project was placed in the hands of an informal committee of four—R. Graeme Smith, Connecticut General Life Insurance Company; Morton Bodfish, executive vice-president, United States Building and Loan League; Orrin C. Lester, vice-president, Bowery Savings Bank, New York; and Walter McMeekan, then vice-president of the Manufacturers Trust Company, New York.

It was felt by those interested that this study would be particularly useful at a time when there was considerable duplication of services by the major agencies and when confusion existed as to the probable extent and duration of the Government's efforts to relieve the problems of real estate. The working committee, in planning the study, obtained the friendly cooperation and advice of Government officials in the public agencies concerned, and these men will have an opportunity to study the results of the survey. The report will also be transmitted to private institutions interested.

$43,000,000,000 and Up

By GEORGE E. ANDERSON

FROM all data available it appears that on May 1 the total net time and demand deposits in the commercial banks of the United States, excluding Federal Government deposits, approximated $43,000,000,000—an increase of nearly two and a half billion dollars in the first four months of the current calendar year.

At this rate of increase total deposits in these banks at the end of 1935 will come within a billion dollars of the all-time high record of 1930. Including Government deposits they may exceed the 1930 record. There are factors in the situation which promise a somewhat more rapid increase during the rest of the year than that registered in the first four months. The prospect is that by January 1, 1936, the commercial banks of the country will carry on their books more commercial funds than they ever have carried before. Unlike the high records of 1929 and 1930, these deposits do not represent "credit money" in the sense of deposits reflecting commercial and industrial loans.

The situation can be estimated by returns of weekly reporting member banks in the Reserve System. Between January 2 and May 1, 1935, net time and demand deposits in these banks increased from $18,073,000,000 to $19,389,000,000, or by $1,316,000,000. Basing an estimate on the same proportion of deposits in all member banks compared with those of the weekly reporting members as indicated in the condition statements of last December, this means an increase of $2,090,000,000 for all member banks and, on a similar basis of estimate, an increase of $2,400,000,000 for all commercial banks in the Federal Deposit Insurance System. Probably the increase was somewhat greater, since deposits have increased in the small country banks in greater proportion than in the larger banks.

At all events the $2,400,000,000, added to the $39,996,000,000 time and demand deposits in all banks in the F. D. I. C. as of December 31 last, gives the total of present deposits in insured banks at $42,396,000,000. Presumably the 1,126 commercial banks which are not members of the deposit insurance system have at least the $550,000,000 of deposits they were reported as having a year ago. This gives a total of $42,946,000,000, assuming that there has been no increase in deposits in non-insured banks. All commercial banks in the country had total deposits, including Government deposits, of a little more than $49,000,000,000 at the height of their boom in 1929–1930.

The distribution of increased deposits, both present and prospective, is significant. The Federal Reserve authorities show in their March analysis of recent developments in deposit conditions that adjusted deposits—that is, deposits other than those of the Federal Government, the postal savings system and other banks—have increased in larger proportion in country banks. The increase in the adjusted deposits in banks in New York City last year amounted to $705,000,000, as compared with $1,817,000,000 in banks in other reserve cities and $1,537,000,000 in country banks. Another significant fact is that there was an increase of $1,509,000,000 in inter-bank deposits, which raised the latter to $4,905,000,000, the largest volume ever known. Nearly all of these deposits were payable on demand.

COUNTRY BANK BALANCES

IN other words, country banks are carrying tremendous balances of unused funds in the metropolitan banks in spite of the fact that they receive no interest upon them. This is also reflected in figures which show that, while the increase in total deposits was 31 per cent in New York City banks, 24 per cent in other reserve city banks and only 20 per cent in country banks, the increase in adjusted deposits was only 14 per cent in New York City banks and 21 per cent in each of the other two classifications. A disproportionate increase in interbank deposits in the New York City banks during the current calendar year indicates that this situation has been greatly emphasized.

This deposit increase, both present and prospective, is largely a country bank interest reflected in city banks, mostly through interbank deposits. The greatest increase in deposits last year was in individual deposits—$2,842,000,000 in demand and $1,063,000,000 in time deposits. A special analysis by the Reserve authorities covering average daily net demand and time deposits in country banks during December indicates that deposits in cities and towns of less than 15,000 population in 21 selected agricultural states were 26 percent larger than the year before, whereas all other country banks taken as a whole reported an increase of 17 per cent.

The implication is that the increase in customers' deposits was larger at rural banks in agricultural sections than in banks in other localities. As compared with the record in 1929, deposits in these rural banks as a whole have declined as a result of the failure of so many banks of this class, the decline being 27 per cent as compared with 7 per cent for city banks. To some extent, accordingly, the present disproportionate increase is a return to former, pre-depression, conditions. At all events the strengthening of small rural banks by a restoration of their former deposit volume is a fact in present day banking whose significance should not be overlooked.

The distribution of the increase in bank deposits is in line with, and doubtless more or less the result of, the special activity in retail trade influenced by Government spending, particularly in the agricultural districts and small towns where the distribution of funds on account of relief and crop adjustment have been comparatively heavy. Doubtless, also, increased prices for farm products have been an important factor. The natural inference is that the expenditures of the Government in the new relief campaign and for further agricultural aid, as well as continued high prices for farm products, will have the same results in further building up deposits in the country banks.

What use these banks will make of additional funds is problematical. While

reserve city banks are credited with most of the enormous increase in excess reserves during the past eighteen months, the much greater increase in inter-bank deposits indicates that much if not most of the increase in reserves belongs to country banks. The fact is that, while all banks are experiencing extreme difficulty in finding profitable employment for their funds, this difficulty is comparatively greater in country than in metropolitan banks, largely because the latter, with their tremendous aggregate resources, are in a position to do what may be called a wholesale business in which country banks can have comparatively little part.

This wholesale business largely consists of participation in the short term financing of the Government which, though unprofitable at current open market rates, offers at least a slight return for the use of their funds. One can scarcely visualize a country banker with 10, 20, 50 or even 100 thousand dollars of excess funds growing enthusiastic over investing them in Government 30-, 60- or 90-day bills at $\frac{1}{10}$ of 1 per cent. As against such a pitiful return he prefers to have his funds where he can use them in case an opportunity to do so is offered. On the other hand, metropolitan banks with many millions of dollars to invest can place them in Government bills and secure a return which, while small in comparison with the amount of money involved, is fairly substantial as an absolutely safe net earning on funds otherwise unemployable.

The cycle of the movement of funds under present governmental and banking policies involves the sale of Government securities, especially those of short term, to metropolitan banks; the expenditure of the proceeds by the Government all over the country; the collection of these funds into the country banks; and the remittance of a large proportion of such funds to metropolitan banks which are thus prepared to repeat the process indefinitely.

It is not a profitable process—without profit, indeed, for the country banks—and this fact is emphasized by the present disposition of metropolitan banks to minimize or abolish entirely interest paid on time deposits, from which some commercial banks have received some slight return. It does not seem possible, in view of the prospect of a further great increase in deposits, that the present disposition of bank funds can continue indefinitely. It seems probable that in the absence of a suitable volume of available sound loans, especially since loans under a revival of business will largely finance themselves by additional deposits, the country banks will be compelled to turn more generally to miscellaneous investments. Undoubtedly they can and will absorb more Government securities.

On last December 31 total loans and investments of country banks amounted to over a billion dollars more than those of the New York City banks, while their investments in Government securities were $1,138,000,000 less—more than enough to allow for the difference in the holdings of short term Government paper. Yet it is evident from their excess reserves and especially from their large deposits with their metropolitan correspondents that this disproportion is not due to the profitable use of funds in other directions. If the country banks carried the same proportion of their total loans and investments in Government securities as that carried by the metropolitan banks they would absorb over a billion and a half dollars of the Government's current financing.

More to the point is their need of seizing upon every opportunity to lend money.

As suggested by Robert V. Fleming, First Vice-President of the American Bankers Association, in an address before the North Carolina Bankers Association at Pinehurst on May 9, bankers may find it advisable and advantageous, both in the interest of business recovery and bank earnings, to make longer term loans than has been customary in the past. For all banks there are brighter prospects of a renewal of long term financing of industry than there have been for the past five years. To the efficient banker increased deposits may mean increased opportunities. There will certainly be greatly increased deposits.

A cartoon by McCutcheon in the Chicago *Tribune* late in 1928. Its title was "She'd Better Not Get Too Far Ahead of Her Meal Ticket"

Some States Tried Banking

By T. P. CRAMER, JR.

Secretary of the Oregon Bankers Association

IT is human to forget experience and resort to unsuccessful theories and practices of the past, because of the constant belief that a New Era is present. This was well demonstrated in the various state legislative sessions during the past Winter and Spring.

In at least nine states bills have been introduced recently to put the states back in the banking business. These were Massachusetts, Wisconsin, Minnesota, Nebraska, Iowa, Montana, Washington, Oregon and California. In none of them, as this is written, have the attempts been successful, and in none have the proposals received much support.

In these nine states the plans varied widely. Central reserve banks, state savings banks, banks for limited custody of public funds, banks for compulsory custody of all public funds and for optional custody of private funds, with loans on real estate and commodities, were included in the various bills introduced. In at least two states no capital whatever was provided, and in two or more all deposits were to be guaranteed by the state with no guaranty fund or method of setting one up provided.

With conservative Massachusetts, progressive Wisconsin, and seven other states of varying degrees of conservatism and progressivism considering these proposals, it behooves bankers, business and professional men, farmers —in fact all who pay taxes—to look at the results of past endeavors and ask themselves, "Does it pay?"

It is no accident that, prior to experience with state-owned banks, many of our states had provisions in their constitutions which were reversed after the banking experience. The provisions in the Illinois constitution are typical. From the constitution of 1818 we read: "There shall be no other banks or monied institutions in the state than those already provided by law, except a state bank and its branches, which may be established and regulated by the General Assembly of the state as they may think proper."

But after 30 years of state banking the provision in the Illinois constitution of 1848 reads as follows: "No State Bank shall hereafter be created, nor shall the state own or be liable for any stock in any corporation or joint stock association for banking purposes, now created, or to be hereafter created."

Among other states, Indiana, Missouri, Alabama, Arkansas and Mississippi, all of which tried state banking with varying degrees of success, had similar constitutional provisions before and after their experience.

COLONIAL "BANKS"

PRIOR to 1860, almost every state from the Mississippi Valley to the Atlantic Coast and from the Great Lakes to the Gulf of Mexico had, either under colonial government or since statehood, engaged in some form of banking.

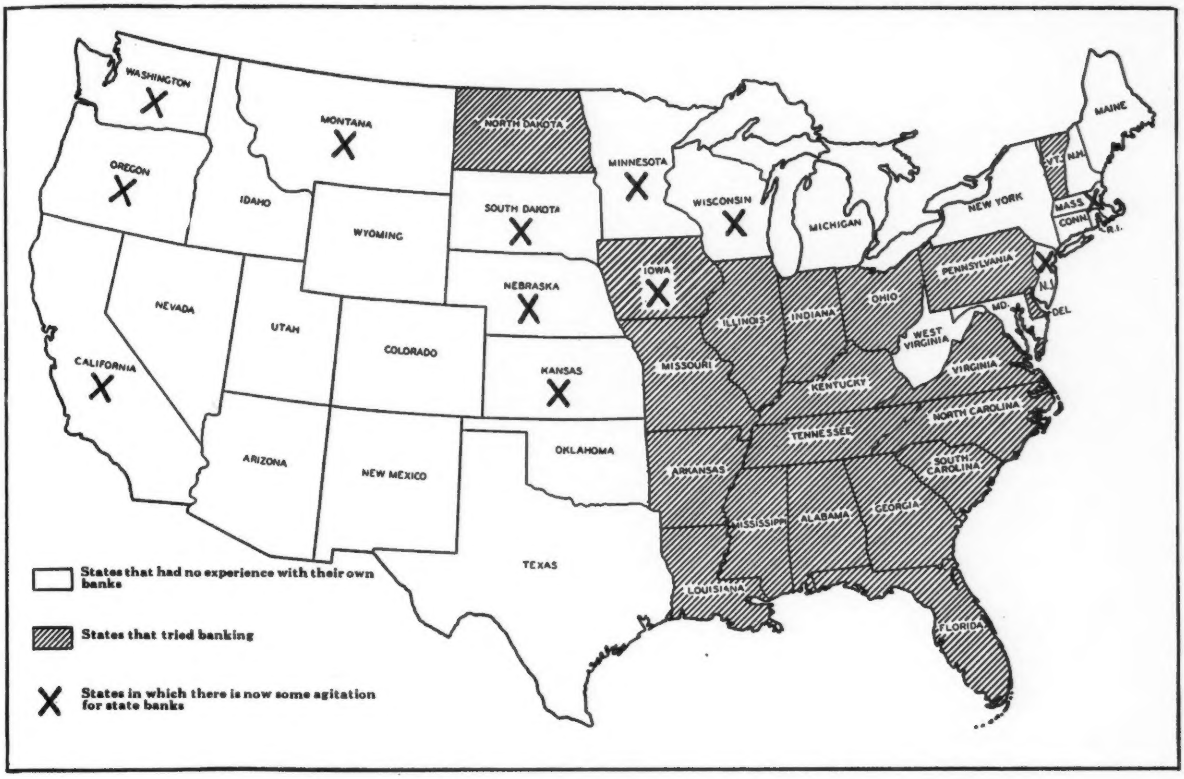
Colonial issues of paper money, or "banks" as they were called, principally for the benefit of the colonial treasuries, were started as early as 1690 by the Colony of Massachusetts. Although dates of issue are indefinite previous to 1711, paper money had been issued before that year by New Hampshire, Rhode Island, Connecticut, New York and New Jersey, as well as by Massachusetts. South Carolina followed in 1712, North Carolina in 1713, Pennsylvania in 1723, Maryland in 1734, Delaware in 1739, Virginia in 1755 and Georgia in 1760. In 1715 the treasurer of Massachusetts issued paper money amounting to 50,000 pounds sterling. It was to be loaned to citizens in sums not exceeding 500 pounds sterling nor less than 50 pounds sterling to any one person, on mortgage security.

In 1740 the British Parliament acted to prevent the formation in the Colonies of any companies for the purpose of issuing paper money. The Massachusetts banks previously formed wound up their affairs.

After independence from England had been gained, a number of states actually engaged directly in banking on their own responsibility; and there was a provision in bank charters in nearly all states, prior to the Civil War, either requiring or permitting the state to subscribe for a portion of the stock.

The Federal Government subscribed for \$2,000,000, or 1/5, of the capital in the First Bank of the United States, and for 1/5 of the \$35,000,000 capital of the Second Bank. According to Prof. G. S. Callender, all the older states, with the exception of New Jersey and two or three in New England, owned more or less bank stock by 1812. Massachusetts had \$1,000,000; Pennsylvania \$2,108,000; Maryland \$540,000; and New York, Connecticut and Delaware a small amount each. About this time the northern states ceased to make further investments of this character, though in some cases ownership continued much longer. For instance, Pennsylvania did not sell the state-owned bank stock until 1833. Southern, southwestern and western states, which established governmental banks, held a much larger amount for a much longer time. In 1839 Georgia owned between three and four million dollars' worth; South Carolina owned all the stock of the Bank of the State of South Carolina, amounting to \$1,156,318. In Virginia, a large part of the internal improvement fund, amounting to \$1,185,000, was made up of bank stock.

In the western states, beginning about 1820, funds invested in bank stock by the states were not derived from revenue but from sale of state bonds. Louisiana, in 1824, was the first state to use this method on a sizeable scale. In the next 16 years western, southern and southwestern states, including the Territory of Florida, issued over \$65,000,000 in bonds to provide banking capital to banking corporations. These investments were not made with a desire to encourage the growth of



Colonial "bank" experiments are not taken account of in the above map. The early Farmers' Bank of Delaware (1807) is still in existence, as is the more recent (1919) Bank of North Dakota. The states marked "x" have recently had either banking bills before their legislatures or have experienced some agitation for state banking

banking. Banks needed no such encouragement. They were, however, regarded as profitable enterprises, and the investment of capital in them was considered a distinct privilege. The issuance of circulating notes and the lending of the money thus created was the basis of bank profits.

Almost as universal as this practice were the unfavorable results that arose from it. In his book, "History of Banking in the United States," John J. Knox, former Comptroller of the Currency, says, "The creation of wealth by means of bank notes was the great heresy of the period between the years 1811 and 1861. . . ."

The period 1800–1850 was one of rapid expansion, and that same period saw the development and failure of most of the systems of state banks. In spite of popular demand, some of the ablest citizens and legislators foresaw and foretold the effect of a currency system founded on promises alone. It must be remembered that the First and Second Banks of the United States were in existence during a large part of this period. With specie available in limited quantity and the Bank of the United States only partially successful in supplying the demands for a circulating medium in the rapidly developing country, it was natural, especially when it became evident that the opposition of President Jackson would prevent recharter of the Second Bank of the United States, that the demands of citizens for a circulating medium should turn to their state governments. Banks were then "banks of issue", not "banks of deposit".

The reasoning of the advocates of state-owned banks is well set out in a series of editorials appearing in the Cincinnati *Republican* in 1833, extracts from which read: "The West will be compelled to rely upon its own resources, upon its own schemes of finance, and the more speedily those resources and schemes are developed and matured, the better prepared it will be to meet the approaching crisis. Many of our sister states in the Valley of the Mississippi have with laudable foresight prepared themselves for the expected emergency. The states of Louisiana, Mississippi, Alabama and Tennessee have already provided themselves with state banks formed on the most liberal and salutary principles and Kentucky and Indiana are about to follow their example. . . . It hence becomes imperiously the duty of the people of the West to themselves, to inquire by what means a sufficiency of capital adequate to all their wants and applicable to all the exigencies of their trade and internal improvements can be created and secured amongst themselves; and in order to derive all the advantages incident to its use to have that capital placed on a basis of permanency—not subject to the contingencies and fluctuations of Eastern money markets, to the caprices of lenders, or to the grasp of the selfish and avaricious.

"Instead of paying to foreign or Eastern capitalists 9 per cent in dividends, let the money necessary to the business and prosperity of Ohio be obtained directly from the East or from Europe at 4 per cent. . . . Let this difference, being the profits arising from dividends on the stock, be applied to the gradual and certain payment of capital thus borrowed. . . . In a state bank, every

citizen will be interested in the circulation of the notes of the bank—for the profits arising from the circulation will belong to *all the people.* Though no direct dividends will be made to the people, the profits thereof indirectly diffused will be equally secured, equally realized in the general reduction of taxation."

Contrast with this argument statements made on the floor of the Illinois Assembly, when in 1819 the charter of a state bank was under discussion. Those who opposed the scheme stated that "all banking institutions, even when founded upon a specie capital, are, in our opinion, dangerous to civil liberty—the public and private morals of our citizens." The corruption of the moral fibre of the citizenry would come from putting "a means into their hands whereby they will have a quick and easy access to every luxury and vice." The prediction was made that such a bank would not last ten years and the idea that it could maintain bank and state credit was called "an idle calculation, a visionary phantom, the acme of legislative folly, calculated to deceive the credulous, honest, and industrious part of the community."

It was further predicted that the bank would become a "hobby horse by which some political demagogue would ride into power," and stated that "No part of our citizens, either commercial, manufacturing or agricultural, require any such currency." Practically without exception, these predictions came true.

There were three general types of state banking institutions. First there were banks in which the state contributed a large share of the capital and in which it had a large share of the management through directors appointed by it, the remainder of both capital and management coming from private sources. The following banks were of this type: The First and Second Banks of Kentucky, 1806 and 1834; The Farmers' Bank of Delaware, 1807 (still in existence); The State Bank of North Carolina, 1811, and the Bank of the State of North Carolina, 1833; The Bank of the State of Tennessee, 1811; the Planters' Bank, 1832; and the Union Bank, 1833 (Tennessee); The State Bank of Indiana, 1814, and the State Bank of Indiana, 1834; The Bank of the State of Georgia, 1815; the Bank of Darien, Georgia, 1818; The Bank of the State of Mississippi, 1818; the Planters' Bank of Mississippi, 1830; The Bank of Louisiana, 1824; the State Bank of Illinois, 1835; the Bank of Illinois at Shawneetown, 1838; and the Bank of the State of Missouri, 1837.

In the second group were the so-called real estate banks. The actual capital of these institutions was secured by the sale of bonds issued by the state and to the bank for that specific purpose. The state was not necessarily a stockholder but usually received a portion of all the profits as compensation for the lending of its credit to the institution. Inasmuch as the working capital was furnished by the state, the stockholders did not put up cash but secured their stock subscriptions by giving real estate mortgages. It was usual in these banks that the stockholders were the principal borrowers. Typical banks of this type were The Union Bank of Florida, 1833; the Union Bank of Louisiana, 1836; the Mississippi Union Bank, 1838; the State Bank of Arkansas and the Arkansas Real Estate Bank, both 1836.

In still another group were those in which the state furnished the entire capital and which were naturally under the direct control of the state. Under this heading were the State Bank of Vermont, 1806; the Bank of the Commonwealth of Kentucky, 1820; The Bank of the State of South Carolina, 1812; The State Bank of Illinois, 1821; the State Bank of Tennessee, 1820; The Bank of Tennessee, 1838; The Bank of the State of Alabama, 1823; The Central Bank of Georgia, 1829; the so-called Loan Association of Missouri, 1821; The State Bank of Iowa, 1858; and the Bank of North Dakota, 1919.

One general statement may be made with respect to most of these banks, and that is that practically all of them operated branches. Some of these were in the nature of independent banks; others were true branches; while still others issued their own notes but were directed by the parent bank as to general policy. Still other states engaged in the banking business in one way or another, and owned bank stock, but it is difficult to place their banks in any of the three general classifications.

The reasons why the states, and formerly the colonies, originally engaged in banking may be summarized as follows: First and undoubtedly foremost, at least in the Colonial days, was the desire to furnish a circulating medium. Second came the desire that the government should share in the anticipated large profits; and third was the belief that the government should have some voice in the banks' management and thus check policies which might be contrary to public interest. In the fourth place, private local capital was hard to obtain and in some frontier states almost non-existent; and finally, government stock ownership would make the governing body a preferred customer when it desired to borrow.

To what extent were these desires realized?

The colonial "banks," or issues of

FOR A LONG TIME

In fact, since about the time the men were being mustered out of the army after the Civil War, few states have tried banking. The picture below is from an advertisement of the Huntington National Bank, Columbus, Ohio

Examples of State Constitutional Provisions*

BEFORE BANKING EXPERIENCE

CONSTITUTION OF MISSOURI, 1820.—"*The general assembly may incorporate one banking company, and no more, to be in operation at one time. . . . The capital stock of the bank to be incorporated shall never exceed $5,000,000, at least one-half of which shall be reserved for the use of the state.*"

CONSTITUTION OF ALABAMA, 1819.—"*One State bank may be established, with such number of branches as the general assembly may, from time to time, deem to be expedient. . . . At least two-fifths of the capital stock shall be reserved for the State.*"

CONSTITUTION OF ARKANSAS, 1836.—"*The general assembly may incorporate one State bank, with such amount of capital as may be deemed necessary, and such number of branches as may be required for the public convenience, which shall become the repository of the funds belonging to or under the control of the State; and shall be required to loan them out throughout the State, and in each in proportion to representation.*"

CONSTITUTION OF MISSISSIPPI, 1817.—"*No bank shall be incorporated by the legislature without the reservation of a right to subscribe for, in behalf of the State, at least one-fourth part of the capital stock thereof, and the appointment of a proportion of the directors equal to the stock subscribed for.*"

AFTER BANKING EXPERIENCE

CONSTITUTION OF MISSOURI, 1875.—"*No State bank shall hereafter be created; nor shall the state own or be liable for any stock in any corporation or joint-stock company, or association for banking purposes now created, or hereafter to be created.*"

CONSTITUTION OF ALABAMA, 1867.—"*The State shall not be a stockholder in any bank, nor shall the credit of the State ever be given or loaned to any banking company, or association, or corporation.*"

AMENDMENT, 1846, TO THE CONSTITUTION OF ARKANSAS.—"*No bank or banking institution shall be hereafter incorporated or established in this State.*"

CONSTITUTION OF ARKANSAS, 1874.—"*Neither the State nor any city, county, town, or other municipality in this State shall ever loan its credit for any purpose whatever.*"

CONSTITUTION OF MISSISSIPPI, 1868.—"*The credit of the State shall not be pledged or loaned in aid of any person, association, or corporation; nor shall the State hereafter become a stockholder in any corporation or association.*"

*** Extracts taken from *Sound Currency*, April 15, 1895.**

paper money, provided a circulating medium of varying degrees of success. To the extent the paper was generally accepted without discount, the schemes were successful. But this acceptance, save in a few isolated cases, constantly decreased in proportion to the distance away from home the bills were presented. New England paper was at a heavy discount in the South, and vice versa, even when generally accepted at home, which was by no means always the case. The later state-owned or state-sponsored corporate banking institutions that were formed primarily for the issuance of currency were but little more successful. Notable exceptions to this general rule may be found in the Second State Bank of Indiana, the State Bank of Iowa, the State Bank of Missouri, The Farmers Bank of Delaware and a very few others.

The second desire, to share in profits, was satisfied to the extent the banks successfully handled their paper issues. If the paper was not accepted, the bank closed and the profits did not exist. Anticipated profits in some states were turned into deficits of millions, even in those days when the word "million" was not so glibly used. Notable examples of heavy losses may be found in the Bank of the State of Alabama, the Bank of the State of Arkansas, the Arkansas Real Estate Bank, the Union Bank of Mississippi and others. More recently, the Bank of North Dakota has cost the taxpayers of that state some millions of dollars, though under slightly different circumstances.

The third reason for government capital, namely, supervision of policies, has been carried out through the years, though until recently without stock ownership. Supervision of banking policies under the old state-owned banks was more political than anything else. By way of example, the directors of the State Bank of Illinois, and directors of a number of other state banks, were elected by the legislature. Management gradually fell into the hands of "politicians who combined ignorance and viciousness in (their) management." The management by the state-elected directorate prompted the Governor of Illinois in 1826, in his message to the legislature, to remark that the directors "either were then or expected to be candidates for office. Lending to everybody and refusing none was the surest road to popularity." From the time these state banks passed out of existence until two years ago, states and the Federal Government alike had carried on supervision, gradually becoming more strict, without stock ownership. The Reconstruction Finance Corporation now owns stock in some thousands of banks, but their supervision is still largely left in the hands of previously constituted authorities.

The non-existence of local capital was largely overcome, temporarily at least, by these banks. When they could bring in capital for organization by sale of state bonds in eastern and foreign markets, the capital stringency was relieved. However, repudiation of bonds soon put a serious crimp in European sales of state bonds. Among the states which repudiated were Florida to the extent of approximately $9,000,000; Arkansas, $500,000; Mississippi, $7,000,000, and a few others. Of some millions in state bonds sold for such purposes, a substantial proportion was distributed in England, the repudiation of which, along with bonds issued for other purposes also, including some by northern states, caused the following parody on "Yankee Doodle" to be current in London:

"Yankee Doodle borrows cash
Yankee Doodle spends it
And then he snaps his fingers at
The jolly flat who lends it.
Ask him when he means to pay
He shows no hesitation,
But says he'll take the shortest way
And that's Repudiation.

Great and free Amerikee
With all the world is vying,
That she the 'land of promise' is
There's surely no denying.
But be it known henceforth to all
Who hold their I.O.U.'s sirs,
A Yankee Doodle promise is
A Yankee Doodle Do, sirs."

(CONTINUED ON PAGE 64)

The Month

The Jubilee in England, Bonus, Relief and Silver

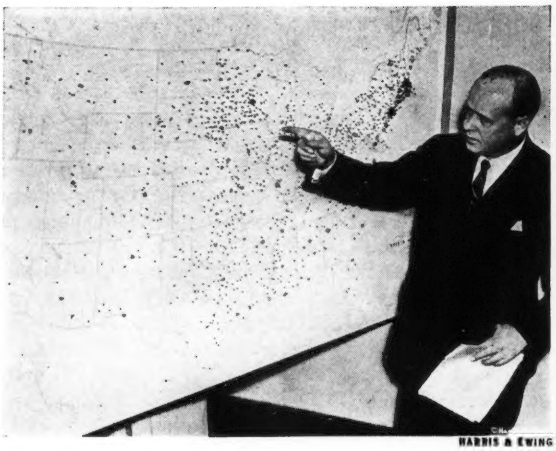
HARRIS & EWING

BONUS

Edwin W. Kemmerer told a Senate banking and currency subcommittee on May 13 that payment of the bonus with new currency would be a calamity. He branded the Patman bill as inflation of the worst type, saying that it was "so preposterous that I can hardly think of words to express myself"

RELIEF

Frank C. Walker, who is head of the Division of Applications and Information of the work relief program. From Mr. Walker applications go successively to Secretary Ickes, the President and Administrator Hopkins



HARRIS & EWING

WIDE WORLD

SILVER

A crowded bank lobby in Mexico, where silver coins are being turned over to the government following a decree designed to protect the monetary base in the face of high world prices for the metal

KEYSTONE

Jubilee service at St. Paul's

The Condition of BUSINESS

THE business recovery witnessed thus far in 1935 has an unmistakably better quality than the improvement experienced a year ago.

It would be pointless, obviously, to match the pickup of this Spring against the inflation-minded upturn of 1933. But there is a much fairer and more accurate basis for comparison between the achievements of 1935 and 1934. In looking at the situation it will be well to consider a number of current aspects, among them monetary influences, the capital market, corporate earnings, Government spending and durable goods. No doubt there are others, but these seem to stand out.

MONETARY INFLUENCES The 1934 Spring rise in business was aided, psychologically at least, by the passage of the Gold Standard Act at the end of January, a move which was followed by a huge inflow of gold to the United States. Monetary influences have entered little, if at all, into the business picture during this past Spring. As a matter of fact, to the extent that they have been present they have been chiefly calculated to have an adverse effect on business. The general trend of the pound sterling, for one thing, has been downward, moving from about $4.95 the first week in January to $4.72 late this Spring. Meanwhile, the belga of Belgium has been devalued and there have been further evidences of crumbling of the so-called gold bloc. All of these factors, in the absence of offsetting influences, would have been deflationary. So far as our own silver buying activities are concerned, they cannot be regarded as inflationary except on that metal itself. In other directions they have tended to contribute to unsettlement.

It is admitted by most economists that there can be no return to normal until the capital markets have been reopened for the financing of industry. By this test, 1935 shows up favorably against 1934. In the first four months of this year capital flotations aggregated $1,031,000,000, which compares with $568,000,000 in the corresponding period a year ago and $232,000,000 in 1933. This comparison should be qualified by pointing out that almost none of this financing represented the raising of new corporate capital. If we deduct refunding issues from the figures given above we find the figures for the three years are: 1935, $341,000,000; 1934, $369,000,000; and 1933, $126,000,000. But of this $341,000,000 that represents new money, all but $42,000,000 has been raised by states, municipalities and Government agencies. A year ago the corresponding figure was $61,000,000 and two years ago it was $44,000,000.

NEW CAPITAL All of these figures are, of course, nominal, and all indicate that the market for new corporate capital is still to be revived. But the difference in the volume of refunding issues and in the volume of municipal financing indicates clearly that one of the great obstacles to such a revival—namely, the over-zealous regulations of new issues by the S.E.C. prevailing in 1934—has been removed.

A rise in production does not put the country back on the road to normal conditions unless it results in business profits, and, here again, we note a sharp difference between the situations of 1934 and 1935.

The comprehensive tabulation of the National City Bank of New York, which is published every quarter, shows that 210 companies engaged in various lines of manufacturing enterprise showed combined net profits of $123,000,000 for the first three months of 1935, against $101,000,000 for the corresponding period last year and $68,000,000 two years ago.

The relative normalcy of recovery depends in a large measure, of course, on how important an influence Government spending has been during the period. Here, again, we find that the first four months, while far from normal, were more nearly so than a year earlier. Government spending for this period totaled $2,314,000,000; a year ago it amounted to $3,201,000,000.

More and more it is coming to be accepted that so long as our fitful recovery booms are confined to consumption goods they cannot be lasting. It is important to note, therefore, that the business recovery of the Spring of 1935 has dipped further into the durable goods industries than did that of last year.

DURABLE GOODS The most conspicuous example of this, of course, has been the remarkable activity in the automobile industry, which up to May had shown a steady rise in production before it began to taper off for the Summer. Automobiles and trucks turned out from January to April, inclusive, totaled nearly 1,600,000 units, which is approximately 200,000 more than output for the entire year 1932 and within 300,000 of the aggregate for the year 1933. Other straws in the wind pointing in the same direction are to be found in residential building and machine tools. Residential building in the month of April was the highest of any month in the last three years. Permits for residential building in April amounted to over $42,000,000, against less than $23,000,000 in April 1934 and $32,000,000 in April 1933. For the first four months of the year residential building permits show a rise compared with 1934 of 59 per cent. This improvement is corroborated by the figures on lumber production. April orders received for soft woods (which represent 90 per cent of all lumber output) were up 25.3 per cent over a year ago while the four months' figures were up 22.4 per cent.

One of the first evidences, in a period of recovery, that manufacturers are giving attention to the modernization of their plants is the rise in activity in the production of machine tools, and reports indicate that this barometer is definitely on the rise. The machine tool production index of Standard Statistics for April touched 118.3 per cent of normal (1922–1934 = 100), the best figure since September 1930.

These figures are not necessarily conclusive, but it is worth while to observe that they are all important indicators of a return to business along normal lines. From the standpoint of the banker they are the things that are to be watched,

for they point, not to spasmodic spurts, but to lasting recovery. And lasting recovery means revived earning assets.

Three times since the Spring of 1933, our economy has attempted to struggle back on its feet. The most spectacular of those efforts, if one consults any standard business chart, came during the Spring and Summer of 1933. The two succeeding periods of improvement, witnessed in the Spring of 1934 and in the early months of the present year, did not carry nearly so far, each bringing production back only to about 60 per cent of normal, as compared with 75 per cent for the rise of 1933.

If, as a superficial contemplation of these three upswings in production would suggest, our recuperative powers were waning, the outlook would indeed be dismal. Happily, however, no such conclusion is warranted if one takes into consideration the quality, as well as the quantity of these movements.

RECOVERY INDEX

The bulge of 1933 was an example *par excellence* of a sensational, but essentially unhealthy, recovery movement. It was predicated on two artificial considerations: fear (or hope) of inflation, and the expectation of higher prices as a result of the enactment of the N.I.R.A. The chief beneficiaries were Wall Street and corporations that profited from rising inventory values. From the standpoint of the banks, its artificiality and intrinsic unwholesomeness made it a period of profitless prosperity. This boom, incidentally, collapsed almost as spectacularly as it had been inflated.

There has been a good deal of discussion in recent weeks as to what constitutes the most important index of recovery —whether, for example, it is to be found in the figures on industrial production, in factory employment, or in the price level.

There is no single answer to this question, because in an economy as complex as ours different groups are affected by different influences. Labor is concerned, for instance, in full employment and high wages. The factory owner wants a large volume of orders, preferably at prices stable enough to remove the speculative element as far as possible from his manufacturing activities. The farmer's idea of prosperity does not include the notion of stable prices at all. What the farmer wants is bumper crops and high prices—and if he can't have both, then high prices anyway.

The banker is situated somewhat differently from any of these other groups; yet essentially his position may be likened in a general way to that of labor. We hear much among political agitators of the socialist school that labor bears the whole weight of depressions in the form of shortened hours and reduced wages. This completely overlooks the fact, of course, that interest rates are the "wages" of capital, and that even when matters are left to adjust themselves according to time honored *laissez faire* practice, interest rates suffer along with wages. When, in addition, governments deliberately adopt policies designed to drive interest rates down in order to stimulate business—as this country and others have done in the last two or three years—capital obviously is called upon to make what amounts to an additional forced contribution to recovery.

BANKERS' RECOVERY

Since the earnings of our commercial banks depend largely on the rate of return on capital it follows that what the commercial banker has in mind when he thinks of prosperity is a revival of demand for commercial credit sufficient not only to give him a respectable volume of such business, but to make the rates on such business at least normally attractive. In other words, he envisions recovery largely in terms of earning assets.

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Center, Robert V. Fleming, First Vice-President, American Bankers Association; right, Francis Marion Law, former President, American Bankers Association; left, Senator Carter Glass

What is the prospect for "recovery" in this sense? What is the outlook for relief for the banker, as distinct from the wage earner, the manufacturer, and the farmer?

The problem of the banks may be summarized best, perhaps, in tabular form. The table immediately below affords a rough cross-section of how bank assets were distributed in July 1928 and how they are distributed now. The banking groups are not identical, but the figures are, on the whole, comparable.

Assets	*1928*	*1935*
Cash	18 per cent	23 per cent
Loans and discounts	61 per cent	28 per cent
Government securities	9 per cent	33 per cent
Miscellaneous	12 per cent	16 per cent
	100 per cent	100 per cent

The first three items here tell the story. Idle cash has increased substantially; loans and discounts—the real bread and butter of the commercial bank—have fallen to less than half their 1928 proportion of total assets, while holdings of Government securities have increased nearly four-fold. All of these changes have cost the banks heavily in earnings, since they mean that comparatively high yield assets have


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Right, Tom K. Smith, Second Vice-President, American Bankers Association; left, Edward E. Brown, president, First National Bank, Chicago

been replaced by low yield assets or assets (in the case of cash) affording no yield. Had money rates remained stationary, however, even these sweeping alterations in bank portfolios would have been of minor importance. The great difficulty has been, of course, that not only have the banks been compelled by circumstance to invest in assets which in the most favorable of times show comparatively little return, but they have been compelled to do so at a time when the general level of money rates is almost fabulously low. Prime commercial paper, for example, in July 1928 brought a yield of 5 per cent; today it yields but ¾ of 1 per cent. Whereas long term Government bonds yielded 3.50 per cent before the depression, today they show an average yield of but 2.68 per cent. Whereas short term Government paper brought well over 4 per cent seven years ago, today the yield is almost nominal, ranging around ⅛ of 1 per cent or less.

THE EARNINGS PROBLEM

The only offset against this tremendous decline in earning power has been a reduction in outpayments by the banks in interest on deposits. Interest has been abandoned completely on demand deposits and has been reduced substantially on time deposits. In New York City, as a matter of fact, interest is no longer paid on time deposits of less than six months. (Even this offset, however, is not all net gain, since it is largely counter-balanced by the cost of Federal deposit insurance.)

In some instances the banks have attempted to meet the problem of reduced earnings, additionally, by expanding their field of operations. Here and there commercial bankers have entered the domain of instalment financing, and in particular the financing of automobile purchases. This, of course, is a segment of banking in which they had been active in years gone by before the advent of the instalment finance houses. Other sorties by the commercial bankers have been into the field of the factors, especially in the textile industry, and, latterly, in the field of what is called "industrial banking". Examples of this are in New York City. One of the largest New York banks entered the business of making "personal loans" to wage earners and salary workers back in 1928, and seems to have found the venture worth while.

BASIC EARNINGS

But at best these moves can be regarded as not more than stop-gaps. We come back inevitably, after considering such potential fields of new earnings, to the fact that before commercial banking can return to anything like normal we must see a restoration of commercial loans and discounts, as represented by the two items in the member banks' combined statement, "commercial paper and acceptances" and "other loans". Purely commercial loans, as represented by the first of these items, had fallen to $386,000,000 the first week in May of this year, as compared with nearly $1,600,000,000 in the middle of 1928.

Where shall we look for a guide to the outlook for banking recovery? A discrepancy—the lack of clear-cut contemporary relationship between the standard indices of business and improvement in bank earnings—is to be found in two factors: first, the normal circumstance that there is a lag of something like six months in the demand for commercial financing, both on the downside of a depression and on the upside; second, the circumstance that in the present instance we have artificial complicating considerations. To name but one or two representative examples, there are the heavy Federal expenditures, which tend to distort the normal trade statistics; there is the competition from the R.F.C. and the Federal Reserve institutions; and there is the undue emphasis, to date, at least, on recovery in the consumption goods industries as distinct from the durable goods industries.

Reduced to its essentials, this means that the banks cannot expect a return to normal until we have, not merely quantitative recovery in trade and industry, but qualitative recovery as well. In other words, the banker who seeks to discover whether the country is returning to normal, in a banking sense, cannot rest content to know that car loadings are increasing, that steel ingot output is rising and that the income of the farmer is on the upgrade. He must know whether these superficial indices are reflecting temporary and artificial conditions, or whether they are accompanied by an improvement in underlying qualitative conditions

"I am convinced that greater study must be given to the specific requirements of foreign countries. We must think more in terms of what they need and not so much in terms of how we can dispose of our excess production. As a means of promoting better international relations generally, we must cultivate an appreciation of the civilization of other peoples and inculcate sympathetic understanding of their tastes, problems and activities among widening circles of our people." — Secretary of Commerce Roper

The Banking Bill

Statement of R. S. Hecht, President of the American Bankers Association, on the proposed Banking Act of 1935, before the Senate Sub-committee on Banking and Currency.

BEFORE discussing in detail the provisions of the proposed Banking Act of 1935, I wish to preface my remarks with a declaration as to the basis of my appearance here today. I am appearing officially as President of the American Bankers Association. The American Bankers Association includes in its membership banks of all kinds and sizes, operated by bankers of all shades of political and social opinion. It is natural, therefore, that there should be some difference of opinion among our membership in regard to certain details of this pending legislation, but I am glad to be able to say that on the really fundamental provisions which it is my purpose to discuss with you there is a remarkable unanimity of opinion in the banking fraternity. I think I can truthfully say that in studying the changes contemplated by this law our members approached the subject not from the narrow view of selfish interest but with a sincere desire to be helpful to Congress in enacting effective and workable banking legislation in the interest of all of our people. With that end in view the Association, through its fully authorized bodies, has given very careful study and consideration to this measure and has reached certain conclusions regarding it. It is my purpose to present today a brief statement of these activities and conclusions of the Association.

A joint meeting was held in March of the Administrative Committee and the Executive Committee of the Committee on Banking Studies, which was appointed a year ago to devote its attention to needed changes in our banking laws. That meeting unanimously authorized the following statement on behalf of the Association:

"While the committees realize that certain provisions of Title I of the pending bill affect adversely the larger banks, and that other provisions of the bill are not entirely acceptable to some of the (Federal Reserve) nonmember banks, they believe that the aims and purposes expressed in the provisions of Titles I and III of the bill are, in the main, in the public interest, as well as in the interest of banking. The committees have, therefore, on behalf of the Association, approved in substance, Titles I and III of the bill. Since the introduction of the bill in Congress, the Executive Officers of the Association have conferred at length with leaders of Congress and administrative heads of the Government regarding the provisions of Title II. The committees believe that certain constructive changes should be made in this title. They recognize that some members of the Association are of the opinion that it would be advisable to postpone definite action on this title of the bill until such time as a more detailed and careful study of its provisions can be made, but the committees believe that, if the changes which they have in mind can be brought about through conferences, it will then be possible for the committees to approve the entire measure.

"A special committee has therefore been appointed consisting of the President, the First Vice-President, the chairman, and one other member of the Banking Studies Committee, and the chairman of the Committee on Federal Legislation. The above mentioned special committee is authorized and directed to confer with the leaders of Congress and the administrative heads of the Government with a view to procuring such changes in the bill as are believed by the Association to be in the best interest of commerce, industry and the public."

This special committee subsequently drew up a schedule of recommendations approving Titles I and III as they then stood but proposing a number of fundamental changes in Title II. A copy of these recommendations was mailed in March to each of the 12,000 members of the Association with a covering letter urging a careful reading and earnest consideration of the statement setting forth the position of the Association. In reply to this communication we have received a great many letters from our members. The overwhelming majority expressed full accord with the position we have taken. These recommendations were also thoroughly discussed in April by the Executive Council of the Association, which is a representative body consisting of members from every state in the Union authorized to formulate policies for the general Association. This body unanimously approved of the recommendations of the special committee.

I would further add that in recent weeks I have had an opportunity to come in personal contact with bankers in a large section of the United States at various state bankers associations' meetings. I may say that almost universally the bankers whom I met expressed approval of the stand the Association has taken, and at every such meeting resolutions were passed expressing substantially the same views.

A great deal of testimony has already been presented before your committee by city bankers, country bankers, economists and business men concerning the specific provisions of the proposed bill. It is therefore not my intention to go into a discussion of each provision but shall direct my remarks only to what seem to us to constitute the major issues.

TITLE I

AS already stated, we approved Title I, which provides for Federal Deposit Insurance, in substance as originally introduced. However, since then several important changes have been made in Title I as passed by the House and I therefore

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Mr. Hecht (left) and Marshall Diggs, executive assistant to the Comptroller of the Currency

find it necessary to make the following additional observations.

Our approval was based on the original provision for an annual assessment of not exceeding $\frac{1}{12}$ of 1 per cent on total deposits. The House bill changed this basis of assessment and now provides that the F.D.I.C. directors *must* make an annual assessment of $\frac{1}{8}$ of 1 per cent which is an increase of 50 per cent to be paid by the banks besides making the assessment compulsory instead of discretionary with the F.D.I.C.

Even with the permissive assessment of $\frac{1}{12}$ of 1 per cent, I can say without reservation that practical banking experience shows that a very heavy burden would be placed on all banks, especially on the large city banks. Such banks would feel particularly the use of total deposit liabilities as the basis of the insurance assessments instead of using only insured deposits. In banks, with large average deposits, the result is that they will be obliged to pay the assessment on a very large volume of deposits that will not be insured. Our information shows that in some instances only 5 or 6 per cent or less of the deposits used as the basis of the assessment would be protected by the insurance.

In the interest of the general situation, our members who felt that they would be disproportionately assessed by reason of the facts I have just described have nevertheless forborne to oppose the provision of a permissive assessment of $\frac{1}{12}$ of 1 per cent. I feel it my duty to emphasize, however, that the changes made in the House bill would very materially change the essence of the proposition which we originally approved. They would aggravate the inequity of the burden which would be imposed on the large banks and also place too heavy a levy on all banks.

We firmly believe that the permissive levy of $\frac{1}{12}$ of 1 per cent represents the maximum that should be contemplated in this connection. We feel that in view of various other increased costs which are now imposed upon banks, and in view of low interest income and reduced earnings, any increase in the severity of the levy would create an excessive burden which could not well be borne by our banking institutions without endangering their ability to build up proper reserves to take care of individual losses which are bound to occur.

The House bill also eliminates compulsory membership in the Federal Reserve System as prerequisite to continued membership in the F.D.I.C. Candor compels me to state that this is one provision on which there is a distinct division of opinion and indeed of material interest among our membership.

Many of our members whose capital is very small but adequate for the needs of their communities would find it practically impossible to qualify for membership in the Federal Reserve and continue in business. Others of our members feel that we should strive for the ideal of a wholly unified banking system under uniform standards of regulation and supervision.

It seems to me that perhaps a fair solution would be not to enforce compulsory Federal Reserve membership on banks below a certain size on which it would inflict undue hardships if they had to choose between compulsory membership in the Federal Reserve System or giving up their membership in the F.D.I.C. which in many instances at least would be tantamount to forcing them out of business.

Instead of this the necessary standards of management and operation could be accomplished by giving the F.D.I.C. appropriate powers of regulation and supervision over all insured banks that would still remain outside of the Federal Reserve System. In any event, we are strongly in favor of retaining in Title I the effective supervisory powers given the F.D.I.C. over its membership in the original bill but which provisions have unfortunately been stricken out of the revised draft passed by the House.

TITLE II

BEFORE entering into a detailed discussion of the provisions of Title II, I would like to restate the position of our Association, i.e. that the question of whether or not there should be any legislation on this subject at this time is one of policy which Congress itself must determine.

However, if it is finally decided that it is necessary to carry this legislation through at this session, we are strongly of the opinion that important changes should be made in the bill as passed by the House and that special care should be taken to keep our credit control and banking mechanism free from any sort of political considerations.

In making this statement I do not wish to appear to question the propriety of the Government's exerting a certain amount of control over banking operations so far as they affect the nation's currency and general monetary policy. Nor do we object to broad powers of supervision over the op-

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This photograph was taken in the Senate committee room during the testimony of Dr. Benjamin M. Anderson, Jr. (left at table), economist for the Chase National Bank, New York

eration of our banking institutions because of the semi-public responsibilities they carry. But when it comes to such matters as the granting of credit and the making of investments by our banks, these are questions of business policies that surely should not be under the *sole* control of a board so constituted as to be dependent upon partisan or political considerations under any administration.

The real conditions that create the necessity for the expansion or contraction of credit arise from the needs of agriculture, industry and trade themselves, wholly independent of the administrative policies of the party which happens to be in power. We feel that the financial requirements of the nation's business constitute a continuing economic process that is not related to political changes. The fundamental principles of sound credit do not vary with variations in public thought. All experience teaches that the quality of credit is sound only so long as it is based purely on the requirements of sound business. It is not sound when any other considerations or motives enter into its composition.

Title II of the Banking Act would centralize in the Federal Reserve Board at Washington means aimed to control the supply of money in the country, which term includes the sum total of currency in circulation and demand deposits in the banks which become current through checks. The powers which it is proposed to give the Board are intended to enable it to influence the quantity of this deposit money through open market operations, the discount rate and reserve requirements.

That is the reason why we are so strongly in favor of making the Federal Reserve Board a body of such independence and prestige that it would be definitely removed from all political thought, influence and dictation. Its members should be free to study and to act in accordance with the needs and conditions of agriculture, industry and trade. The policies of the board should have no reference to the politics or the changes in politics of the national administration.

In our studies of Title II, we have been strongly impressed with the fact that it would set up a situation under which the Federal Reserve Board and its policies might be subject to control from the political administration of the country. In saying this I do not charge that it is the intention of the present administration to bring about any undue control over the nation's banking mechanism. The point is that if the bill passed as now proposed, opportunity for control would be there for the use of the present or whatever future administration might be in power.

Our criticisms of the bill are not aimed, therefore, at the motives of the present administration, but they are wholly impersonal and non-political and are aimed entirely at the basic principles involved.

We have therefore prepared a study of the bill with suggested changes which we think would tend largely to correct those features to which we object. What I shall say immediately following is a presentation of the recommendations as prepared by our Special Committee and approved by our Executive Council, as I described at the outset of my remarks.

This Committee was deeply impressed with the fact that the changes contemplated by Title II go to the very root of the theory and practice of banking as it has existed in this country. It felt that it would be difficult, if not impossible, to formulate final conclusions in the brief space of time which has elapsed since the bill was introduced. However, the Committee feels that the following suggestions, if carried out, would remove many of the defects of the present bill.

1. The Federal Reserve Board

The Committee agreed that many of the changes in the Federal Reserve Act proposed in Title II are of a constructive nature and should have the support of bankers, if the method of appointment and the tenure of office of the members of the Federal Reserve Board, in whose hands it is planned to concentrate greater power than ever before, could be so altered as to insure, as far as possible, the absolute independence of the Board from partisan or political considerations. It was its view that if a satisfactory solution of this problem can be found, one of the greatest objections to Title II of the bill, as proposed, will have been eliminated. It addressed itself first, therefore, to Section 203 of Title II of the bill which deals with the all important question of the membership of the Federal Reserve Board. On this point it said:

"Since the passage of the Federal Reserve Act, informed

opinion both in Congress and among bankers has been striving towards the ideal of making the Federal Reserve Board a body of such independence and prestige that it might be described as the Supreme Court of Finance and Banking. We believe there is greater need now than ever before for realizing this ideal.

"We recommend that the Board be reduced from eight members to five. We believe this should be accomplished by the retirement from the Board of its ex-officio members, namely, the Secretary of the Treasury and the Comptroller of the Currency, and by reducing the appointive members of the Board to five as soon as a vacancy occurs (such a change would necessarily involve an adequate revision of the salary of the Comptroller who now receives a portion of his compensation through the Federal Reserve Board).

"We heartily approve the proposed increase in the salaries of the members of the Board and would, in fact, like to see their compensation fixed at a somewhat higher figure than that mentioned in the bill so as to attract to these tremendously responsible positions the very best talent available. We believe that the plan of providing suitable pensions for the members of the Board is especially desirable because the security which such an arrangement assures would be a further help in inducing outstanding men to accept a call for service on the Board and give them the financial independence which such a position requires."

I should like to pause for a moment to say that we feel that the action of the House in eliminating the pension provision is most regrettable since we had from the start considered this one of the important factors tending to maintain the independence of the members of the board.

I should also like to take a moment to emphasize the fact that our committee's suggestion for the elimination of the Secretary of the Treasury and the Comptroller of the Currency from the Board, of course has absolutely no personal or individual element in it. In other words, it does not refer in any sense to the present incumbents of these offices. The suggestion is based wholly on a matter of principle, namely, to reduce numerically governmental influence in the Board. We feel that the representation of the Administration on the Board would be sufficiently provided for through the appointment of the Governor by the President under conditions proposed by our committee as follows:

2. The Governor of the Federal Reserve Board

(I quote.) "The bill as originally introduced provided that the Governor should serve only at the pleasure of the President and that his service as a member of the Board should cease upon the termination of his designation as Governor. It has already been suggested that an amendment be made in the bill as proposed which would provide that the Governor, if no longer designated as such by the President, might, if he chose, continue his membership on the Board, but would be permitted to reenter private business (without the two-year limitation) if he chose to resign upon not being redesignated. We would be entirely satisfied with this suggested change. (The House has since adopted this suggestion.) If, however, it is deemed essential to give each incoming President the right to name a Governor of his own choosing, because of the fact that the Administration will no longer be represented on the Board by the Secretary of the Treasury or the Comptroller of the Currency, it may be desirable to give the President the power to select the Governor of the Board and to provide that the term of the Governor of the Board will be the same as that of the President. It should also be provided in the Act that the members of the Federal Reserve Board, including the Governor, shall be removable during their term of office only for cause."

3. Election of Governors of the Federal Reserve Banks

(I continue to quote from our committee's report.) "It has been suggested that Section 201 of the bill be modified so that the Governor of each Federal Reserve bank shall be approved by the Federal Reserve Board every three years rather than annually, so that his term as Governor would coincide with his term as a Class 'C' Director. We believe that in order to preserve the independence of the Governors of the Federal Reserve banks the term during which they may serve without having to be reapproved by the Federal Reserve Board should be as long as possible and that this approval should certainly not be required more often than every three years. Corresponding changes should be made in the act with regard to the election of Vice-Governors of the Federal Reserve banks.

4. Open Market Operations

"Neither the original text of Section 205, providing for the Open Market Committee of three members of the Federal Reserve Board and two Governors of the Federal Reserve banks, nor the subsequent suggestion which has been made that authority over the open market operations be vested in the Federal Reserve Board, which would be required to consult with a committee of five Governors selected by the twelve Governors before adopting an open market policy, a change in discount rates or a change in member bank reserve requirements, seems to us to constitute a satisfactory solution of the open market problem.

"Our suggestion is that the Open Market Committee shall consist of the entire Federal Reserve Board (reduced to five members) and four Governors of the Federal Reserve banks, selected by the Governors of the twelve Federal Reserve banks annually, each member of the Open Market Committee having a vote in the deliberations of the committee on the three subjects to be entrusted to it, i.e., open market policy, change in discount rates or change in member bank reserve requirements."

The new provision since included in the House bill vesting authority over open market operations, discount rates and reserve requirements in the Federal Reserve Board which is directed to only "consult" with an "advisory" committee of five governors who would have no vote in the determinations of the open market committee is an entirely unacceptable substitute.

5. Changes in Reserve Requirements

(I am reading again from the committee's report.) "It has been suggested that Section 209 of the bill be amended so as to provide that the Open Market Committee shall not have the power to change reserve requirements by Federal Reserve Districts but only by classes of cities and it has been suggested further that for this purpose banks be classified into two groups, one comprising member banks in Central Reserve and Reserve Cities and the other comprising all other member banks, and that the reserve requirements be uniform within each group. We believe that these suggested changes are desirable but we think serious consideration also should be given to the desirability of fixing limits in percentage of deposits beyond which reserve requirements cannot be increased or decreased by action of the Open Market Committee.

6. *Real Estate Loans*

"We do not favor Section 210 as originally proposed, permitting advances against real estate up to 75 per cent of the actual value of the property if amortized within twenty years, or up to 60 per cent of the actual value of the property for a term of not more than three years, in both instances without territorial limitations.

"We are in favor of the suggestion subsequently made that all real estate loans hereafter made shall not exceed 60 per cent of the appraised value of the property and that the Board be given discretion to make regulations governing real estate loans held by banks at the present time.

"We also believe that the presently existing territorial limitations, or some similar limitations, should be retained in the law and that unamortized real estate loans should be permitted up to a period of five years." (We are glad to say that the House bill now contains most of these suggested changes.)

In summary the report concludes as follows:

"We believe that the foregoing modifications in Title II of the bill (numbered 1 to 6 inclusive) are fundamental and that all of them are in the national interest. If changes substantially along these lines cannot be made in the original draft of the bill, we would be strongly opposed to the enactment of Title II. However, if these changes, some of which in whole or in part have been heretofore recommended by Governor Eccles, are adopted, we would be in substantial agreement with the provisions of Title II, provided that the following additional changes which have also been suggested by Governor Eccles are included in that Title:

(a) *Admission of Insured Non-Member Banks*

"It has been suggested that Section 202 of the bill should be amended so as to provide that the Federal Reserve Board shall have authority to waive not only capital requirements but all other requirements for admission of insured, non-member banks to the System, and that the Board be permitted to admit existing banks to membership permanently without requiring an increase in capital provided their capital is adequate in relation to their liabilities. (The House bill practically meets this suggestion.)

(b) *Federal Reserve Bank Experience for Federal Reserve Board Members.*

"It has been suggested that Section 203 (1) of the bill be amended so that as a general policy two members of the Federal Reserve Board shall be selected, when possible, from persons who have had experience as executives of the Federal Reserve Banks.

(c) *Federal Reserve Board Pensions*

"It has been suggested that Section 203 of the bill be modified so as to provide that any member of the Board, regardless of age, who has served as long as five years, whose term expires and who is not reappointed, shall be entitled to a pension on the same basis as though he were retired at 70 years of age; that is, he is to receive an annual pension of $1,000 for each year of service up to twelve." This ends my textual citation of the report.

As to Title III of the bill, the committee expressed the belief that its provisions, which consist of amendments to the Banking Act of 1933, would materially clarify and improve the present law and therefore that it was of the opinion that the various provisions of this title should also be approved in substance.

I wish to call your special attention to the fact that the time element is an essential factor in the provision of Title III (325) which makes it possible for boards of directors to grant extensions up to three years on loans heretofore made to their own executive officers. These loans will become outlawed on June 16, 1935, if no new legislation is passed before that time and this would create a very serious situation in many banks.

In closing I desire to express once more the genuine desire of the banking fraternity to be helpful and constructive in making suggestions in connection with this pending legislation. The changes we are urging are, we believe, essential to the continued independence of the Federal Reserve System. We have made it clear that we do not object to a measure of public control in the national interest for proper coordination of our manifold credit operations and we do not believe the sponsors of the legislation desire any political domination over these activities through our Federal Reserve System. Under such circumstances we feel that our recommendations should be favorably acted upon because they would enable the reconstructed Federal Reserve Board to function freely as a nonpolitical body actuated only by the dictates of sound financial and economic policies conceived in the interest of all of our people. Their adoption would place the operations of the Federal Reserve System wholly and distinctly apart from the fluctuations and vicissitudes of political conditions and free from undue influence by banking opinion only. Such a solution would thus have a stabilizing and confidence-inspiring effect on the entire business situation.

ACME

BANKING BILL

Seated, left to right, at the Senate committee hearing are: Thomas M. Steele, president, First National Bank and Trust Company, New Haven, Connecticut; Howard A. Loeb, chairman, Tradesmens National Bank & Trust Company, Philadelphia; Joseph H. Frost, president, Frost National Bank, San Antonio, Texas; and James H. Perkins, chairman, The National City Bank of New York

EDITORIALS

The Postmaster's Bank

THE postal savings system was founded with the understanding that the rates it would pay depositors on their funds would be below those paid by commercial banks so as not to compete with the latter for deposits. The Government bank was to attract funds not reached by existing private institutions—the savings of immigrants or people of the backwoods who were afraid of banks and would be willing to trust their money only to the Government.

At the time the present rate paid depositors in the postal system was fixed commercial banks were paying, and as a rule were quite able to pay, around 4 per cent for similar deposits. Accordingly, at that time they could well afford to pay the postal system the 2.5 per cent interest charged for its redeposits and to pledge the collateral necessary to cover the latter as required by law.

Competition Intensified

Since the original rates were fixed, however, rates paid for deposits in private savings banks have gradually been lowered until in some of the larger cities they are actually below those paid by the Government institution. In many other cities the rates in the two classes of institutions are the same, while in the country at large the average has been only slightly above the rate paid by the post office.

Now that the Federal Reserve Board has decreed that the maximum rate paid by all member banks shall not exceed 2.5 per cent on all time and savings deposits the situation has been intensified. Except in certain districts in the South and West it is impossible for commercial banks to earn a profit on handling postal savings funds. In many cases the latter are handled at a loss.

The postal savings system has developed into an institution which competes seriously with private banking. It is evident on the face of the record that with commercial banks earning less than 3 per cent on the investment of time and savings funds they cannot pay the Goverment 2.5 per cent for postal savings funds, while if the latter are not deposited in commercial banks the whole intent and purpose of the postal savings system is perverted and thwarted. It is also evident that so long as the postal savings system, supported by the tremendous prestige of the Government, pays the present rate of interest to depositors it will draw funds that should go to commercial banks which contribute to the strength of the community.

Public Indifference

IN THE face of the striking development of the postal savings system in the past three years it is rather disturbing to realize that the general public knows so little about it. There is no institution in the country, public or private, handling a billion and a quarter dollars of the people's money, with the resulting powerful influence upon general credit, concerning whose operations so little information is available.

Every bank in the country, large and small, is required to report to supervisory authorities and otherwise make public its condition and details of its operations at least three and generally four times a year. Even Government credit institutions such as the R. F. C. are required to report monthly or at least quarterly and their reports are promptly available for public examination. The postal savings bank reports once a year at the end of the fiscal year, but its report is usually published six months or more later and is scarcely available for public examination until much if not most of the following year has run its course. Nor is the report, when published, such as to give the public certain details which are of extreme importance in measuring the usefulness of the institution.

SYPHONING OF FUNDS

IT WOULD be interesting to know, for example, what was the geographical distribution of the system's commercial bank deposits in the last fiscal year as compared with their geographical origin. It is known that from time to time, especially in periods like the present when difficulty is found in placing the funds in local commercial banks because of the system's interest and collateral requirements, that large sums may be drawn from one part of the country and deposited in other parts to the manifest disadvantage of the communities furnishing the funds. This would be not only contrary to the intent and purpose of the original organization of the system but would have a direct paralyzing effect upon banks in the communities affected.

It is rather doubtful whether the Federal Deposit Insurance system has had any material effect upon the business of the postal savings system. It certainly has not resulted in restoring to the commercial banks any of the deposits taken from them by the Government institution during the banking troubles since 1931, nor does it give any promise that it will do so.

The fact of the matter is that the postal savings system is now stronger than ever it was and is in more direct competition with commercial banks than ever.

The A.I.B. at Omaha

JUNE 10 will find more than a thousand members of the American Institute of Banking gathered at Omaha, Nebraska, for their organization's 33rd annual convention.

The convention entertainment committee, headed by Joe G. Brewster, The Omaha National Bank, has prepared a bulging program of interesting activities which will be interspersed among the business meetings. This is the first time the Institute has met in Omaha and members in that city are eager to demonstrate their hospitality.

The first major event is the ninth annual National Public Speaking Contest for the A. P. Giannini Educational endowment prizes, to be held Monday evening, June 10, in the grand ballroom of the Fontenelle Hotel. Nine contestants, survivors of the various district contests, will compete for the awards —a $500 first prize, $300 for second place, $200 for third and $100 for fourth. The subject this year is "The Bank's Service to the Community."

On the morning of June 11 the delegates will be welcomed to Omaha by Mayor Roy N. Towle. Maynard W. E. Park, assistant cashier of the Federal Reserve Bank, Kansas City, and vice-president of the Institute, will make the response.

R. S. Hecht, President of the American Bankers Association, is to address this session, held in Brandeis Theatre, on the subject "The Banker's Future." There will also be reports from the Institute president, Charles F. Ellery, the educational director, Dr. Harold Stonier, and from the various committee chairmen. National officers and council members for the next Institute year will be nominated.

The afternoon will be given over to departmental conferences, followed in the evening by one of the outstanding events of each convention, the annual debate. The topic is: "Resolved, that the United States should adopt a policy tending toward economic self-sufficiency." Dallas Chapter will uphold the affirmative and St. Paul Chapter the negative.

Wednesday morning, June 12, is given over to Institute conferences and matters of chapter administration, including meetings of women members, discussions of Institute publicity, and the debating activities of the organization. Further conferences are scheduled for that afternoon. In the evening the delegates will journey to Omaha's famous Ak-Sar-Ben Coliseum where a special program of entertainment will be presented.

Thursday morning's program provides additional conferences and group meetings, but the afternoon is to be devoted to an outing at Peony Park. The delegates will return to the city for the annual caucuses for membership on the Institute Executive Council, which will be held in the evening.

Friday morning brings the election of officers and selection of the 1936 convention city. Invitations have been extended by Seattle, St. Paul, and Grand Rapids. The speaker at this session is William A. Irwin, professor of economics at Washburn College, Topeka, Kansas, who will discuss "Banking in a Changing World."

The convention ends Friday, June 14. On the afternoon of that day delegates will have an opportunity to visit some of Omaha's leading industrial plants, while in the evening a farewell ball takes place in the Fontenelle.

Cost Analysis Study

THE Bank Management Commission, American Bankers Association, has distributed to all members a "Manual for Determining Per Item Costs." The purpose of the booklet, which is Number 15 in the Commission's commercial bank management series, is to aid banks in analyzing their operating costs as a basis for establishing equitable service charges.

Orval W. Adams, chairman of the Commission and vice-president, Utah State National Bank, Salt Lake City, says in a foreword that "cost analysis is of prime importance in modern banking."

"Through it," he asserts, "the bank can determine what part of the banking operation is responsible for losses and what must be done to eliminate them. The job is not ended when this study is printed and distributed. Cost analysis is not an end in itself but a means to an end. The aim is the elimination of wasteful operations and unprofitable business through analysis of accounts and the installation of profitable service charges."

Simplification of Checks

IN a bulletin issued to bank purchasing agents by the Bank Management Commission their cooperation is especially requested in carrying on the simplification of bank checks, notes, drafts and similar instruments in respect to size and uniformity of arrangement.

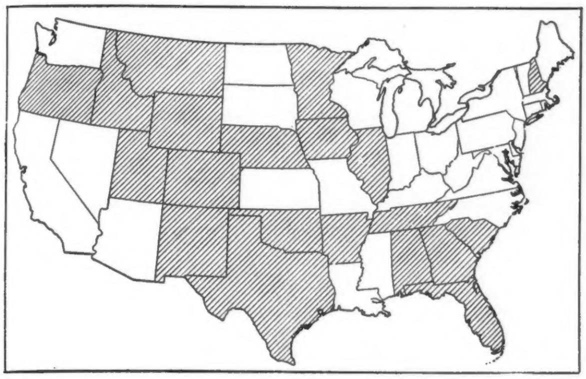
Specific recommendations to this end were formulated by the Association about ten years ago, the bulletin says, and promulgated by the United States Department of Commerce among banks and business houses using large numbers of checks, commercial stationers and lithographers. As a result about 85 per cent adherence to these recommendations was brought about.

The present bulletin, which gives all of these standard specifications in detail, is issued to maintain this high level.

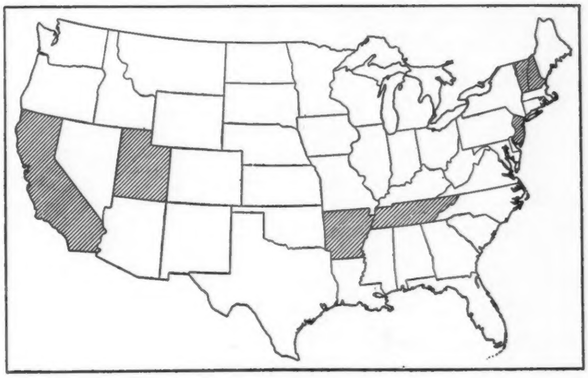
Association Appointments

FRED McCARTNEY, vice-president, First National Bank, Oakes, North Dakota, has been appointed member of the Executive Council, American Bankers Association, to serve until the meeting of Association members at the annual session of the state bankers association, June 14–15. This appointment was made because the increased membership in North Dakota again entitled the state to representation on the Council.

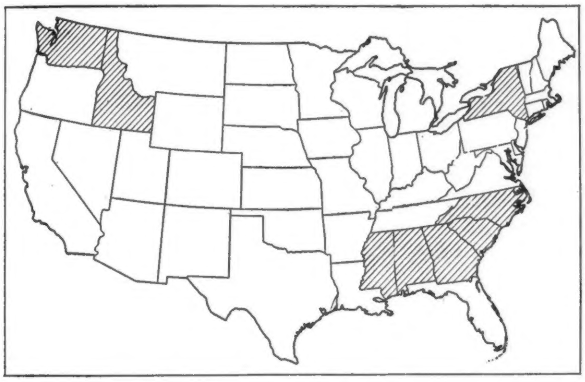
Thomas D. Brabson, president, First National Bank, Greeneville, Tennessee, has been named state vice-president to succeed Thomas P. Summers, resigned. E. E. Soulier, president, First National Bank of Lafayette, Louisiana, has been made Louisiana state vice-president.



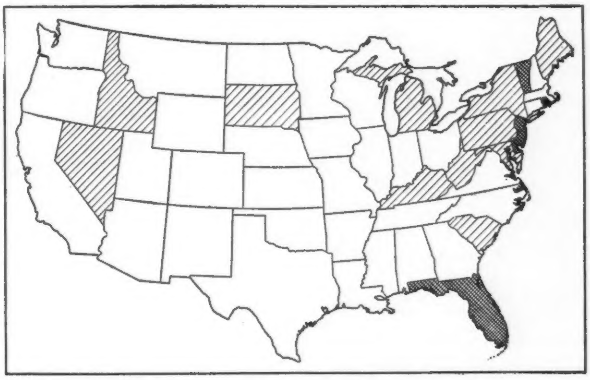
Shaded—States showing a 1933–1934 decline in "other real estate". See page 45.



Shaded—States showing a 1933–1934 decline in their total resources. See page 45.



Shaded—States showing a 1933–1934 increase in loans, discounts and overdrafts. This data is given in detail on page 44.



Light shading—States showing a 1933–1934 increase in the number of state banks. Heavier shading—States showing no change in number of state banks.

A National View of State Banks

By ROBERT M. HANES

Last month in BANKING Mr. Hanes described a study by the Committee on State Bank Research of the State Bank Division of the American Bankers Association. On the following four pages is a portion of the results of that study

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THE comparative balance sheet figures tabulated on the following four pages have their chief practical value in the standards they furnish. Individual banks will undoubtedly wish to compare the changes in their own balance sheet items with the general trends for all banks in their states as shown in the tabulation.

Equally important are the enlightening variations of some states from the trends revealed by the figures. For example, there has been a general increase in holdings of "other real estate", certain states excepted. When these exceptions are placed on a map—as they are elsewhere on this page—it appears that they are chiefly states in which agriculture or mining is important. A possible conclusion is that the crisis in real estate is now less acute in such regions than in urban and industrial sections.

Again, the figures show a substantial recovery in deposits, but in varying degrees in different classes of deposits. The increase in demand deposits was some 18 per cent, compared with only about 5 per cent for time deposits. This offers an interesting speculation as to whether business is recovering more rapidly than the individual's saving power is returning to normal.

RESOURCES of State Banks

AS OF DECEMBER 31	NUMBER OF INSTITUTIONS		LOANS AND DISCOUNTS AND OVERDRAFTS		INVESTMENTS		BANKING HOUSE, FURNITURE & FIXTURES	
	1934	1933	1934	1933	1934	1933	1934	1933
Alabama	149	153	32,847	32,350	20,849	12,704	2,010	2,304
Arizona	9	10	10,213	10,544	12,423	9,846	1,702	1,795
Arkansas	182	199	26,750	28,777	14,934	13,622	1,591	2,234
California	152	160	419,452	484,077	407,329	388,821	20,267	21,399
Colorado	89	96	14,427	16,610	13,126	13,362	1,262	1,547
Connecticut	73	74	128,232	138,399	70,711	59,783	12,662	13,282
Delaware	40	40	56,134	57,394	42,730	45,906	2,578	3,260
Florida	105	105	13,606	13,754	19,127	20,508	1,816	2,194
Georgia	223	226	70,729	59,483	21,862	15,488	5,211	5,084
Idaho	55	42	10,107	9,456	18,081	12,776	904	927
Illinois	611	616	221,086	300,480	413,619	317,722	16,665	17,136
Indiana	418	468	116,180	144,505	100,949	72,989	11,387	13,762
Iowa	526	600	144,565	176,690	52,379	17,383	5,584	8,386
Kansas	552	573	60,261	70,966	46,027	32,421	4,804	5,116
Kentucky	346	345	120,381	135,311	57,280	45,247	6,162	6,340
Louisiana	120	122	40,797	44,863	32,046	23,960	2,725	2,848
Maine	31	29	39,845	41,402	28,679	21,659	1,292	1,149
Maryland	128	125	91,943	135,564	135,446	94,335	10,216	16,202
Massachusetts	79	80	217,403	221,482	183,866	149,527	11,471	10,728
Michigan	373	294	168,957	186,059	196,344	97,089	17,398	16,792
Minnesota	477	485	58,131	68,699	61,510	46,943	4,345	4,810
Mississippi	211	212	39,471	38,065	34,500	23,849	2,667	2,700
Missouri	659	709	215,457	246,707	252,033	226,068	15,415	16,404
Montana	78	86	12,804	15,115	19,334	15,978	1,264	1,351
Nebraska	299	381	24,713	34,951	20,096	13,904	1,835	2,641
Nevada	8	7	1,224	1,430	1,803	859	118	107
New Hampshire	13	14	8,916	12,263	6,551	11,524	223	403
New Jersey	174	174	265,806	323,120	496,063	508,417	44,486	45,007
New Mexico	18	19	2,356	2,489	2,205	1,983	176	184
New York	324	316	3,138,536	2,961,198	3,482,576	2,932,637	115,167	221,679
North Carolina	179	203	76,535	66,774	88,610	59,111	5,764	7,109
North Dakota	142	145	9,136	10,981	6,235	2,984	880	937
Ohio	463	500	437,367	497,928	309,004	215,918	35,298	37,257
Oklahoma	197	224	11,820	13,306	15,592	15,614	967	1,143
Oregon	56	61	11,049	12,434	12,492	8,372	773	1,280
Pennsylvania	414	406	696,873	776,054	883,747	788,291	75,121	75,298
Rhode Island	14	14	93,156	127,383	106,310	126,867	12,967	2,991
South Carolina	139	136	26,052	20,038	20,222	16,276	1,300	1,397
South Dakota	148	147	13,302	15,222	11,987	7,884	1,223	1,234
Tennessee	259	260	52,833	63,763	21,444	14,213	4,293	4,153
Texas	460	489	64,014	70,192	47,460	36,459	6,879	8,152
Utah	45	46	23,340	38,806	28,604	21,083	1,107	1,196
Vermont	36	36	37,491	42,630	21,969	18,585	1,688	1,753
Virginia	196	202	102,965	103,205	48,809	34,513	5,392	5,621
Washington	135	143	32,438	30,697	41,283	27,767	2,301	2,525
West Virginia	103	102	60,252	66,923	33,514	27,282	4,334	4,942
Wisconsin	522	566	129,793	166,490	133,540	90,372	9,894	11,202
Wyoming	34	37	6,830	8,066	3,508	3,139	550	572
Total	*10,064*	*10,477*	*7,656,575*	*8,143,095*	*8,098,808*	*6,762,040*	*494,134*	*616,533*

Mutual savings banks are omitted from these figures, and in the case of New Hampshire the "stock" savings banks are also omitted. The notation (1) indicates that in the case of Arizona "Other Real Estate" has been included under "Banking House, Furniture and Fixtures". In all columns except "Number of Institutions" "000" is omitted

OTHER REAL ESTATE		CASH AND DUE FROM BANKS		OTHER RESOURCES		TOTAL RESOURCES	
1934	1933	1934	1933	1934	1933	1934	1933
1,950	2,116	18,306	17,653	1,042	1,469	77,004	68,596
(1)	(1)	11,341	7,917	115	....	35,794	30,102
1,768	1,793	18,923	22,372	683	1,387	64,649	70,185
27,516	23,824	172,953	141,319	10,749	10,293	1,058,266	1,069,733
488	596	18,785	10,669	430	330	48,518	43,114
5,571	4,599	60,564	41,230	904	3,643	278,644	260,936
2,270	1,429	27,933	12,661	404	465	132,049	121,115
1,495	2,131	19,278	11,680	4,847	902	60,169	51,169
5,770	5,808	31,071	25,421	1,060	586	135,703	111,870
169	218	13,691	8,352	2,711	3,027	45,663	34,756
10,628	14,698	254,435	181,605	10,411	12,748	926,844	844,389
6,868	6,830	81,156	55,797	1,697	7,533	318,237	301,416
1,614	5,803	88,582	65,234	642	778	293,366	274,274
2,813	2,756	58,375	33,457	1,569	1,972	173,849	146,688
5,249	4,154	41,249	30,285	9,303	10,241	239,624	231,578
1,854	1,828	31,636	22,139	368	931	109,426	96,569
1,558	1,271	12,784	14,330	13,830	12,297	97,988	92,108
2,698	2,467	56,590	40,512	1,266	4,923	298,159	294,003
8,662	5,860	103,559	67,344	3,645	3,578	528,606	458,519
10,888	9,615	129,687	87,309	24,283	24,092	547,557	420,956
1,017	1,084	39,780	29,688	3,088	5,631	167,871	156,855
1,874	1,513	33,805	23,799	1,862	2,109	114,179	92,035
11,988	11,546	202,653	135,050	12,967	8,687	710,513	644,462
485	502	19,311	12,795	305	307	53,503	46,048
593	1,688	30,080	18,793	142	529	77,459	72,506
90	65	1,821	1,429	60	30	5,116	3,920
367	499	1,782	1,110	28	17	17,867	25,816
27,806	22,736	149,966	105,558	29,095	22,214	1,013,222	1,027,052
165	176	2,901	1,403	31	68	7,834	6,303
48,381	28,272	1,559,540	1,443,397	415,554	271,270	8,759,754	7,858,453
3,106	3,038	85,008	59,761	2,380	2,731	261,403	198,524
766	721	6,779	3,722	57	30	23,853	19,375
23,882	20,991	215,238	149,306	15,597	22,079	1,036,386	943,479
303	409	17,315	13,867	571	881	46,568	45,220
538	631	9,268	8,906	226	356	34,346	31,979
64,457	59,685	374,994	222,504	55,247	50,368	2,150,439	1,972,200
4,655	1,361	24,182	26,000	1,737	4,277	243,007	288,879
1,300	1,426	28,974	20,665	637	2,986	78,485	62,788
487	471	11,866	5,632	144	649	39,009	31,092
4,037	5,413	28,357	17,998	2,406	12,767	113,370	118,307
4,854	5,202	64,342	57,130	10,421	8,342	197,970	185,477
1,169	1,172	18,287	12,099	1,074	2,245	73,581	76,601
4,331	3,844	5,357	5,812	848	1,596	71,684	74,220
4,332	4,039	39,865	28,000	4,337	5,808	205,700	181,186
780	778	32,543	21,331	4,247	4,183	113,592	87,281
4,072	3,124	32,446	20,734	695	854	135,313	123,859
4,706	4,078	71,403	49,420	1,343	2,899	350,679	324,461
176	249	5,895	3,167	47	41	17,006	15,234
320,546	*282,509*	*4,364,656*	*3,396,362*	*655,105*	*535,149*	*21,589,824*	*19,735,688*

LIABILITIES of State Banks

AS OF DECEMBER 31	DEMAND DEPOSITS		TIME DEPOSITS		TOTAL DEPOSITS		BILLS PAYABLE AND REDISCOUNTS	
	1934	1933	1934	1933	1934	1933	1934	1933
Alabama	39,186	31,430	21,950	19,135	61,136	50,565	746	1,669
Arizona	19,469	14,628	12,818	11,968	32,287	26,596	53	52
Arkansas	34,402	37,678	15,192	13,575	49,594	51,253	3,033	5,441
California	358,057	325,916	551,044	594,265	909,101	920,181	1,412	3,641
Colorado	25,758	19,198	15,032	14,962	40,790	34,160	343	1,024
Connecticut	121,378	111,941	108,700	95,527	230,078	207,468	851	4,112
Delaware	73,004	59,723	26,563	26,137	99,567	85,860	68	304
Florida	36,875	27,498	12,517	11,094	49,392	38,592	122	1,084
Georgia	65,851	45,809	36,468	34,007	102,319	79,816	4,068	3,582
Idaho	28,786	18,682	10,944	9,234	39,730	27,916	....	13
Illinois	541,609	419,329	260,283	207,942	801,892	627,271	7,632	77,120
Indiana	147,678	160,192	119,306	82,106	266,984	242,298	391	6,605
Iowa	155,574	119,023	103,460	109,304	259,034	228,327	84	8,436
Kansas	116,178	75,000 (2)	28,995	40,752 (2)	145,173	115,752 (2)	664	1,756
Kentucky	91,579	74,898	74,338	75,032	165,917	149,930	10,560	19,173
Louisiana	58,860	44,968	31,052	29,358	89,912	74,326	311	4,717
Maine	22,532	21,878	46,462	43,329	68,994	65,207	1,176	2,954
Maryland	119,668	95,798	114,488	120,689	234,156	216,487	282	11,955
Massachusetts	293,217	229,958	144,050	133,547	437,267	363,505	267	5,828
Michigan	199,860	147,839	230,947	157,935	430,807	305,774	2,454	6,369
Minnesota	61,874	51,338	83,138	75,586	145,012	126,924	....	1,084
Mississippi	58,969	44,707	36,049	30,227	95,018	74,934	397	3,146
Missouri	425,019	361,489	160,714	151,031	585,733	512,520	11,513	7,147
Montana	30,571	28,636	15,208	10,096	45,779	38,732	16	456
Nebraska	44,659	38,208	21,756	19,735	66,415	57,943	2	234
Nevada	3,769	2,488	721	886	4,490	3,374	....	....
New Hampshire	3,017	3,560	11,787	17,949	14,804	21,509	65	477
New Jersey	367,780	336,117	451,615	454,735	819,395	790,852	12,762	47,017
New Mexico	5,225	3,792	1,786	1,543	7,011	5,335	....	181
New York	5,846,074	5,079,908	1,171,652	1,127,175	7,017,726	6,207,083	19,869	55,392
North Carolina	169,738	128,970	60,875	41,276	230,613	170,246	157	621
North Dakota	11,155	7,390	6,808	7,114	17,963	14,504	145	692
Ohio	424,741	350,646	452,748	415,320	877,489	765,966	1,505	22,393
Oklahoma	32,104	31,723	8,170	6,516	40,274	38,239	94	281
Oregon	15,519	12,856	14,139	13,010	29,658	25,866	102	856
Pennsylvania	961,100	742,390	686,023	681,708	1,647,123	1,424,098	6,371	41,228
Rhode Island	52,339	89,132	149,837	153,584	202,176	242,716	....	421
South Carolina	51,772	36,886	18,382	15,836	70,154	52,722	227	409
South Dakota	25,174	17,780	6,847	6,303	32,021	24,083	24	1,115
Tennessee	51,380	39,610	40,780	32,291	92,160	71,901	784	10,946
Texas	129,489	120,558	18,845	18,591	148,334	139,149	1,431	1,813
Utah	29,742	21,359	33,041	30,278	62,783	51,637	33	424
Vermont	7,576	7,158	43,731	54,690	51,307	61,848	759	4,622
Virginia	80,720	62,891	82,393	75,976	163,113	138,867	1,061	2,772
Washington	56,730	38,856	39,017	30,794	95,747	69,650	....	1,494
West Virginia	56,791	45,209	52,229	50,029	109,020	95,238	479	2,908
Wisconsin	109,933	81,807	177,457	174,669	287,390	256,476	351	12,560
Wyoming	8,299	6,936	6,147	5,361	14,446	12,297	30	394
Total	*11,670,780*	*9,873,786*	*5,816,504*	*5,532,207*	*17,487,284*	*15,405,993*	*92,694*	*386,918*

Mutual savings banks are omitted from these figures, and in the case of New Hampshire "stock" savings banks are also omitted. The notation (1) indicates that "Other Liabilities" are included under "Bills Payable and Rediscounts". (2) indicates that figures are estimated. "000" is omitted in all cases

CAPITAL		SURPLUS UNDIVIDED PROFITS AND RESERVES		OTHER LIABILITIES		TOTAL LIABILITIES	
1934	1933	1934	1933	1934	1933	1934	1933
9,152	8,641	5,048	6,253	922	1,468	77,004	68,596
2,175	2,275	1,279	1,179	(1)	(1)	35,794	30,102
8,311	8,667	3,622	3,935	89	889	64,649	70,185
74,710	66,573	49,486	56,270	23,557	23,068	1,058,266	1,069,733
3,818	3,820	3,138	3,559	429	551	48,518	43,114
23,279	20,839	23,868	27,158	568	1,359	278,644	260,936
10,928	11,996	20,853	21,787	633	1,168	132,049	121,115
6,651	6,536	3,232	4,283	772	674	60,169	51,169
17,402	15,956	11,328	11,803	586	713	135,703	111,870
2,770	2,705	1,746	2,204	1,417	1,918	45,663	34,756
61,328	72,001	51,925	62,029	4,067	5,968	926,844	844,389
31,923	27,945	15,278	21,998	3,661	2,570	318,237	301,416
22,347	23,930	11,801	13,132	100	449	293,366	274,274
17,064	16,175	9,347	9,981	1,601	3,024	173,849	146,688
26,452	21,548	14,388	19,404	22,307	21,523	239,624	231,578
12,989	9,589	5,470	7,159	744	778	109,426	96,569
8,867	6,385	5,573	5,600	13,378	11,962	97,988	92,108
31,281	28,724	31,585	35,594	855	1,243	298,159	294,003
42,002	35,996	47,289	50,790	1,781	2,400	528,606	458,519
77,234	64,200	20,503	22,670	16,559	21,943	547,557	420,956
16,106	14,474	6,607	8,738	146	5,635	167,871	156,855
12,749	7,397	3,421	4,369	2,594	2,189	114,179	92,035
67,561	63,576	34,454	41,835	11,252	19,384	710,513	644,462
5,622	4,244	1,995	2,604	91	12	53,503	46,048
7,860	9,715	3,182	4,614	....	....	77,459	72,506
365	325	248	197	13	24	5,116	3,920
987	1,161	2,011	2,669	....	....	17,867	25,816
92,846	76,352	65,827	84,686	22,392	28,145	1,013,222	1,027,052
615	575	207	211	1	1	7,834	6,303
640,242	458,266	849,968	876,132	231,949	261,580	8,759,754	7,858,453
17,341	12,500	12,090	12,516	1,202	2,641	261,403	198,524
4,244	2,895	1,175	1,278	326	6	23,853	19,375
115,336	87,674	34,826	50,137	7,230	17,309	1,036,386	943,479
4,120	4,519	1,706	1,711	374	470	46,568	45,220
2,757	3,354	1,723	1,803	106	100	34,346	31,979
157,356	137,457	311,372	341,498	28,217	27,919	2,150,439	1,972,200
12,005	11,655	26,688	28,091	2,138	5,996	243,007	288,879
4,957	4,654	2,841	3,238	306	1,765	78,485	62,788
5,159	3,700	1,801	2,177	4	17	39,009	31,092
12,960	12,287	4,472	6,308	2,994	16,865	113,370	118,307
27,823	22,837	8,122	9,436	12,260	12,242	197,970	185,477
7,453	5,583	2,726	4,341	586	14,616	73,581	76,601
10,006	2,651	7,760	3,059	1,852	2,040	71,684	74,220
22,159	19,657	12,550	11,423	6,817	8,467	205,700	181,186
8,169	8,394	7,927	5,969	1,749	1,774	113,592	87,281
15,573	12,261	10,136	13,057	105	395	135,313	123,859
43,421	31,353	14,789	20,116	4,728	3,956	350,679	324,461
1,561	1,230	939	1,312	30	1	17,006	15,234
1,808,036	*1,475,247*	*1,768,322*	*1,930,313*	*433,488*	*537,217*	*21,589,824*	*19,735,688*

Court Decisions

A DIGEST BY THE LEGAL DEPARTMENT

American Bankers Association

Bank Collection Code; Constitutionality

IN a unanimous opinion rendered orally, the Circuit Court of Stephenson County (Illinois) in the case of Illinois v. Union Bank & Trust Company held the Illinois Bank Collection Code unconstitutional on the ground that the Legislature intended the code to apply to all banks, both state and national, within the state and that portion of the code involved in the case of insolvency of banks is invalid since it attempts to include the establishment of a preferred claim against the assets of a national bank when placed in receivership under the jurisdiction of the Comptroller of the Currency. Therefore it being invalid as to national banks it must also be invalid as to state banks, since the Legislature could not have intended that the Act should only apply to state banks, and the invalid portion being so closely related to the Act as an entirety results in the invalidity of the whole.

Garnishment; Set-Off

The Pennsylvania Supreme Court in reversing a decision of the lower court follows the majority rule holding that a bank is not precluded by garnishment of a bank account from setting it off against a matured note of the depositor irrespective of whether the note gave the bank a lien and irrespective of the fact that the bank had not exercised its right to call the loan. Bergman Bldg. & Loan Assn. v. Blaul, 178 Atl. (Pa. Sup. Ct.) 140, reversing 175 Atl. (Pa. Super. Ct.) 743 digested in May 1935 issue of this publication.

Collection; Preference on Insolvency of Collecting Bank

The Federal rule requiring the establishment of a trust, augmentation of the bank's assets and tracing of augmented assets into the receiver's hands in order to establish a claim to preference in the assets of a national bank in the hands of a receiver was followed in Brownell v. Turman, 75 F. (2d) (C.C.A. 7th Circ.) 913, which held that a claimant who deposited bonds for collection under oral instructions to the collecting bank to hold and invest the proceeds in other bonds was not entitled to a preference where the collecting bank accepted a credit from its correspondent bank for the proceeds and credited claimant's checking account, in view of the fact that the receipt taken by the claimant at the time the bonds were deposited contained an agreement authorizing the bank to accept such a credit.

The court considered that this agreement showed the intention of the parties to be that the common law rule permitting the collection proceeds to be mingled with the funds of the collecting bank should apply, although such rule had been modified by statute.

Stock Certificates: Validity

A transferee of a stock certificate is under a duty to ascertain whether all signatures necessary to the validity thereof are genuine. Citizens and Southern Nat. Bank v. Trust Co. of Georgia, 179 S. E. (Ga.) 278, holds that a corporation and its transfer agent are not estopped to deny the validity of a certificate issued in the name of an officer of the transfer agent who was also the officer authorized to affix the signature of the transfer agent but who forged the signature of the registrar where both signatures were essential to the validity of the certificate, although the transferee was not put upon inquiry as to the rightful ownership of the certificate by the mere fact that the person in whose name it was issued was the same person who affixed the transfer agent's signature.

Stockholders; Assessment

A majority of the stockholders of a bank had voted to pledge its assets as security for a loan from another bank with which to pay its depositors and other creditors, and agreed with the pledgee bank to make an assessment if necessary to repay the loan. Union Banking Company v. Abercrombie, 179 S. E. (Ga.) 342 held the assessment could not be enforced against stockholders who did not consent to the agreement.

Deposit of Guardian; Preference

Bank in which guardian, who was also active officer thereof, kept funds of his wards without bank giving bond as security therefor, as required by the Probate Court, of which requirement the bank had notice, became a trustee ex maleficio and upon its insolvency claim for the ward's funds was entitled to preference. Schendel v. Peyton, 259 N. W. (Minn.) 693.

Worthless Check Act

The drawing of a check on an institution which is not a depository of money (such as a packing company), when the drawer has no funds there to meet the check, is not a violation of the Worthless Check Act. State v. Williams, 42 Pac. (2d) (Kan.) 561.

Director's Note for Capital Deficits

In Love v. Wilson, decided by the Mississippi Supreme Court April 15, 1935, the court held that the continuation of the banking institution in which the director was vitally interested both as director and stockholder and the consequent avoidance of his stockholder's liability during that continuance was the consideration for the note given by the director to "cover" the deficiency in the capital of the bank.

Attachment of Deposit upon Which a Check Is Drawn

A bank on which an attachment execution writ was served two hours subsequent to its issuance of a check to a depositor in payment of his deposit was held entitled to assert the defense of payment as against the depositor's attaching creditors, where the drawee bank paid the check in due course, since liability on a negotiable instrument is bound by attachment of the obligor only if it remains in the hands of the payee or one not a holder in due course, and service of the writ on the obligor does not prevent negotiation. Joseph Melnick Building and Loan Ass'n v. Melnick, 178 Atl. 144.

Stamps

TIMELINESS makes a valuable contribution to bank window and lobby displays.

An officer of one banking institution recently decided that the copies of famous paintings which the bank had been showing in its lobby had little public appeal, however decorative they might be, so he undertook an experiment with quite different material. For his private postage stamp collection he had obtained full sheets of the famous "Farley imperforates", the ungummed sheets of stamps issued by the Post Office Department to meet the demands of philatelists, and it occurred to him that here was interesting material for a bank exhibit.

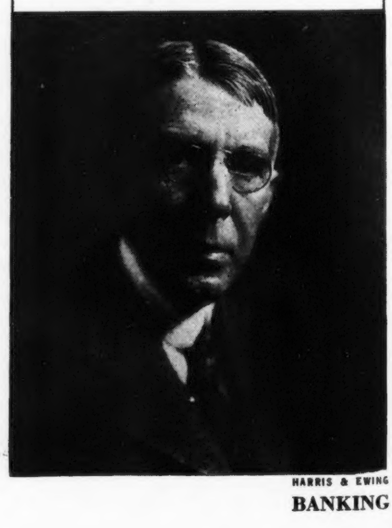
He placed the stamps in the large frames which had been displaying the pictures and prepared a brief description of them. The response was immediate. Customers who had taken little or no notice of the paintings stopped to examine and comment on the postage stamps; most of them had read about the stamps and expressed an interest in seeing actual specimens. As soon as the local newspaper printed a story about the display in its stamp column, the collectors began to come in, eager to examine items which had caused such a stir.

The banker, of course, was pleased by the success of his experiment and in planning the next exhibit he sought other material that would have the appeal of timeliness. He procured a substantial collection of German paper money, issued during the inflation period, and mounted it artistically in the frames, the theory being that people were widely interested in the general subject of inflation and that the huge sums represented by the notes would tell the story of what happens when the presses begin to print money promiscuously. He was careful to keep from the labels any suggestion that monetary inflation was a possibility in the United States. In this instance also public attention was attracted again.

The bank is planning other displays which depend on timeliness for their appeal.

MUTUALS

Robert C. Glazier is the new president of the National Association of Mutual Savings Banks. Mr. Glazier is president of the Society for Savings, Hartford, Connecticut



HARRIS & EWING

Frenzied Philately

THE idea looked quite simple. It was merely that all cancelled postage stamps on the bank's incoming mail be given to the employees' stamp club.

Some banks were selling their stamps to dealers or to members of their staffs, but this institution would give them away as a contribution to the personnel relationship. The plan seemed to have great possibilities; as a matter of fact, it did—far different than had been expected.

The collectors, of course, received the news with an enthusiasm which only stamp fans can generate under such circumstances. Here was a philatelic Santa Claus from whose miraculous pack would tumble an inexhaustible supply of major and minor treasures, assuring a fat album and a heavy stock of duplicates for every member of the club. The depression, in short, appeared to be over for these fortunate hobbyists.

However, the sponsor of the plan had reckoned without an adequate understanding of the philatelic instinct. He had not fully gauged the intensity of the stamp collector's ardor, nor foreseen the complications that can arise when a hundred or more of the frenzied faithful are turned loose on a heap of old envelopes.

Experience, in this case, was a rude if thorough teacher. Various methods of distributing the stamps were tried, but somebody was always complaining that he or she had not been treated fairly and that the spoils were going to those whose responses to the knock of opportunity were being supported by long arms and strong elbows. Ill-feeling threatened to obliterate any possibility that the bank's efforts to please would result in more than discord. The periodic distributions of stamps became bugbears to the personnel officers, and they called for an armistice.

Then the club devised a plan which has proved generally satisfactory; at least it assures order. Every other Saturday afternoon the collectors gather in their club room. On a long table are generous heaps of unsorted stamps which the mailing department has torn from recent letters and packages. The philatelists draw lots and make their selections from the piles, "sight unseen", in the order of the drawing. The only variation is that he who gets first choice at one distribution must be last at the next.

Income Tax Service

To the Editor:

THE attached copy of an article ["Income Tax Service"] appearing in the February issue of BANKING has been forwarded to the writer who is chairman of our committee cooperating with bankers. So many protests have been registered by our membership that we feel it is only fair to your publication that they should be called to your attention.

It is felt that we truly express the views of our membership when we say we fully understand that the motive back of this article was to be helpful to the banks, their customers and the Treasury Department. Furthermore, we are sure you will not construe these protests as being registered purely in the self-interest of our profession. However, it does seem to be the consensus of opinion of our members that you have treated the matter very lightly when you say that any junior officer can, in a few weeks time, become proficient enough to deal with all but a few questions which customers might ask. Who shall say what these few questions are on which he is not qualified?

We also take issue with the views expressed in the sixth paragraph of this article. Experience seems to indicate that the professional attorney and the certified public accountant do not "lean too far in favor of their clients." Does it seem reasonable that the junior bank officer with only a few weeks training would be as cognizant of the pitfalls attending a too liberal interpretation of the income tax laws and the thousands of decisions as would a member of the bar or a certified public accountant who has spent a lifetime in preparing himself to serve the public in this very specialized capacity?

In an extreme desire to serve their customers, the bankers made the mistake of encroaching upon the meager income of the notary public, with the result that in some states the final result was embarrassing.

MORE RECENTLY

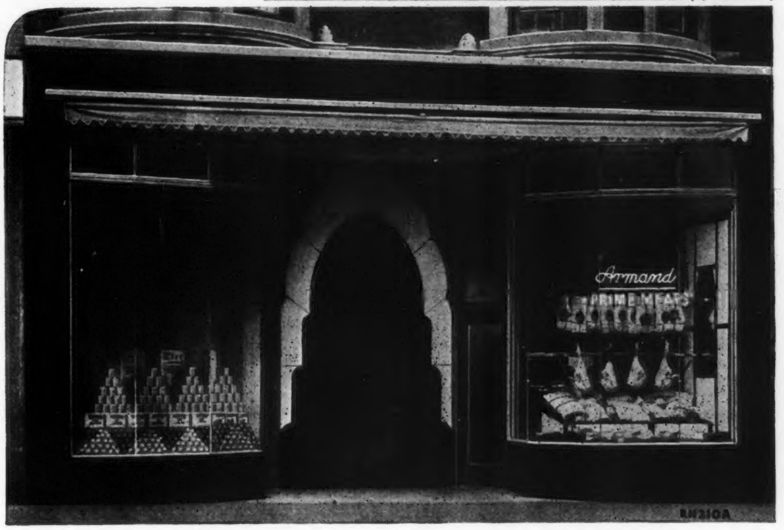
DURING the past few years there has been a very healthy sign that banks have decided they can be most helpful to their community when they confine their efforts to what is commonly known as a strictly banking service. This view has also added to their own profit through the elimination of salaries and many minor expense items, including the investment in a complete income tax reference library.

The accounting profession has also been confronted with the problem of confining its efforts to that field which it is best qualified to serve, but we do believe that common practice has demonstrated the fact that the giving of advice and assistance in the preparation of income tax reports should be confined to the accounting and legal profession. We are sure that both of these professions would register a very kindly feeling towards your publication and to bankers in general if you were to support that view in your future issues.

O. V. WALLIN
Chairman, Committee Cooperating with Credit Grantors,
The American Society of Certified Public Accountants,
Washington, D. C.

It PAYS to "Modernize Main Street" with a New PITTCO STORE FRONT!

BEFORE: *Here is a run-down residence property in Brooklyn, N.Y., as it appeared before being remodeled with a new Pittco Store Front.*



AFTER: *And here is the same property, transformed from an unproductive residence into an income-producing store location by remodeling with a Pittco Store Front. This is just one instance of how unproductive properties throughout the country are being made productive once again by Pittco remodeling.*

THE movement to "Modernize Main Street", to remodel outmoded properties with new Pittco Store Fronts, has nowhere proved of greater value than in the banking field. For banks throughout the country with unproductive properties on their hands because of foreclosures or trust administration, have definitely proved the ability of Pittco Fronts to renew the income-producing powers of these properties. After remodeling with a Pittco Store Front, a property is easier to rent, easier to sell if desired, far more satisfactory to the tenant.

Undoubtedly *your* real estate or trust department has similar problems of unproductive real estate to face. And we are confident that new Pittco Fronts can help you in the profitable solution of them. Why not send for our booklet "How Modern Store Fronts Work Profit Magic", which will give you complete information on Pittco Store Fronts? We believe you will find it interesting, because the book also contains numerous pictured examples of Pittco modernization in properties of many types and sizes, with construction costs and resulting increases in rentals, etc. You can easily gain an approximate idea of the cost of remodeling *your* properties with Pittco Fronts, merely by glancing through this booklet. Clip the coupon for your free copy.

Carrara Structural Glass

Pittco Store Front Metal

Pittsburgh Mirrors

PITTCO STORE FRONTS

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PRODUCTS OF

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Pittsburgh Paint Products

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Tapestry Glass

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2197 Grant Building,
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Please send me, without obligation, your new book entitled "How Modern Store Fronts Work Profit Magic."

Name__________

Street__________

City__________ State__________

Money Looks for Work

INASMUCH as the New York Clearing House requires its member banks to charge at the rate of one-quarter of 1 per cent for lending for an out-of-town bank on call, the recent reduction in the open market rate to that level automatically deprived the outside institutions of any revenue from this source and forced them to call their loans.

Most of them, a survey disclosed, merely placed the funds called on deposit with their city correspondents pending solution of the problem of how to employ the fresh increment of idle money. In doing so they hoped for restoration of a market in which a bank lending through its city correspondent could at least earn something.

It may be well for a bank which has been deprived, at least temporarily, of its Wall Street loan outlet to go on the principle that, so long as large excess reserves are maintained in New York, money will stay absurdly cheap on call and that, if it does not, much out-of-town money will be on tap at the first sign of a rising rate. The question then is what to buy?

While the answer depends largely on the relation of investments and loans to other items on the balance sheet, conservatism will dictate that the money, if employed, be placed in something ranking as high and as liquid as a call loan. Most banks in the big cities may suggest replacement of the called loans by Government securities of a short term type, such as Treasury bills. These yield even less than one-quarter of 1 per cent, but they provide at least something and they do not involve a long tie-up of the money.

COMMERCIAL PAPER

IF some good commercial paper is available at three-quarters or even five-eighths of 1 per cent, that may be even better, for it is virtually as safe and yields more. Bankers acceptances, at present, yield too little for a small bank to bother about and, because they are so sensitive to money market ripples, there is danger of a loss on the portfolio if rates should change and if bills held had to be sold before maturity.

For banks which have no such connections it might be advisable to consider called bonds. Bonds which are called immediately sell, in relation to their call price and maturity, on a money basis and it is often possible to buy called bonds maturing in extremely short periods at prices to yield a fraction of a per cent. Numerous large banks are making out rather well by purchasing bonds before they are called and selling them when called.

The procedure is to buy on a basis to yield, say ¾ of 1 per cent, and to sell at a price to yield less after the call.

Rather than risk a long term tie-up of funds which should be maintained highly liquid, especially at abnormally low rates, it may be possible to replace the small income lost through closing of the Wall Street call market by offsetting economies or by development of new activities. One such activity is to buy a small amount of good real estate first mortgages yielding 5 per cent. Only $1,000 invested at 5 per cent will earn as much as $20,000 at one quarter of 1 per cent, thereby supporting in idleness, if need be, the remaining $19,000.

Small Deposit Balances

MOST banks are familiar with the small depositor who just can't maintain the minimum balance, gets slightly overdrawn, and then pays for his delinquency in the form of a service charge. When these small depositors decide to save the $1 or $2 monthly by closing out their accounts the bank may win, but many institutions feel they lose something. They can't let the depositor stay without paying the $2 a month, and if he does pay it they don't lose by keeping the account. Problem: how to keep him on the books despite his economy ideas anent the service charge.

One bank solved this problem in a manner which came close to that ideal condition known as eating your cake and still possessing it. It discovered that many of the depositors who couldn't maintain the minimum balance were sure they could do so if they had the minimum balance to start with. So the bank conceived the idea of lending the depositor enough money to enable him to maintain the minimum balance, thereby saving the payment of a $2 service charge.

The revenue lost, at the rate of $24 a year, by discontinuance of the service charge, was partially made up by the $12 discount on the $200 loan needed to bring the account up to the bank's minimum deposit rule.

The customers who borrowed to keep a minimum balance, curiously enough, did not mind the interest as much as the service charge. They did not realize, or if they did they believed it reasonable, that the bank was charging them interest while still holding the proceeds of the loan.

From the bank's viewpoint the arrangement was good because (1) it retained a good portion of the earning power, the income merely coming via the discount department instead of the fee route; (2) the proceeds of the loan were kept on deposit; (3) numerous small accounts or overdrawn positions were rectified; (4) the bank retained the good will of the customer, whose self-respect was heightened by the extension of the credit and (5) the process swelled both loans and deposits, the deposit, being a demand one, costing nothing except handling expense.

"AND INTEREST"

FOR banks which make personal loans, or ordinary demand loans upon which payments on account of principal are made or endorsed at stipulated intervals, there is an opportunity to make even a larger profit than the straight discount, for the reason that the discount is collected on the whole loan, whereas if the loan were made on an "and interest" basis the interest yield would fall with each partial payment which correspondingly reduced principal.

Most bank customers fully understand that, from one angle, a loan to build up an account to an arbitrary figure is merely another way of paying for the privilege of having a checking account, but some apparently prefer to do it for there is a psychological benefit from having a bank balance, even if it is one that cannot fall below a certain figure and even if it costs interest to maintain it.

Federal Reserve

FEDERAL Reserve examiners and the trust departments of state banks and trust companies which are members of the Reserve system have met officially for the first time. They received each other cordially and with a tacit admission that the meeting had certain awkward aspects, chiefly the fact that this was something new to both parties.

Trust men consider it fortunate that at the outset the authorities determined to measure the performance of trust departments against the principles set forth in "A Statement of Principles of Trust Institutions" drafted and adopted by the Trust Division, American Bankers Association, about two years ago.

To an extent, the first examination was experimental. The machinery for conducting it was assembled from facilities already at the disposal of the Reserve banks and certain adjustments were necessary before it could fit the many activities and problems of the trust business. But on the whole the examination appears to have proceeded smoothly, building up a valuable background for subsequent inspections, whenever they come.

Essentially, the purpose of instituting trust examinations was to improve the quality of trust service. Although at the beginning some trust men wondered to what extent this purpose could be accomplished, or whether Federal Reserve examiners were qualified to enter the trust field, others favored the idea, believing the results would tend to raise standards.

Presumably, many trust executives viewed the outcome in the light of their pre-conceived convictions; others may have changed their minds, either one way or the other. All, however, cooperated.

It is impossible, of course, to frame the composite replies of trust men to such questions as "What were your experiences with Federal Reserve examination?", "To what extent should the procedure be changed?", "Have you any constructive criticisms?", or "Did the examination prove helpful?" Nevertheless, in an effort to provide approximate answers BANKING obtained a cross section of opinion from a number of experienced trust men, believing that what they had to say would be interesting to others.

The comments may not comprehensively reflect views generally held, yet they raise a number of points that have a bearing on various phases of the new relationship between trust departments and the Federal Reserve authorities.

I. Examination Perspective

VIEWED in perspective, the experiences of trust departments with Reserve inspection have given rise to several broad observations as to policy and procedure. Some of them are more or less critical, although in a friendly way; others are complimentary. They may be summarized roughly as follows:

Banks must be alert to prevent undue

Trust Examinations

bureaucratic encroachment upon the general field of fiduciary relationships, which differs sharply and fundamentally from commercial banking services. So far the examination work has been satisfactory, but it would be inadvisable for the examining authority to go too far in its efforts to examine trust departments and become involved in non-essentials. If the procedure followed in the first examination is not unduly expanded, trust departments have little cause for complaint.

Of the complaints so far heard, some came from banks which objected to the costs. Others said the examiners tried to do too much and required too much time, with resulting inconvenience to the bank, for the accomplishment of their duties. Some pointed out that not all the examiners were thoroughly familiar with trust department problems and methods, although it was recognized that the Reserve representatives had gained valuable experience during the initial examination.

It was generally agreed that the Reserve authorities acted wisely in recognizing that the examiners could not endeavor to ascertain the contingent liabilities of trust departments.

While the examiners were mapping out their preliminary plans this question was thoroughly canvassed and there were rather extensive discussions as to whether the liability in the case of each trust could be determined. Every trust man knows how intricate this problem is and that he himself cannot hope to answer it in an arbitrary way. The matter rests ultimately within the sphere of the courts and most cases have to be determined on their merits.

Hence, some trust executives pointed out, it is impossible to expect that examiners could find an arbitrary measuring stick that would fit the numberless instances in which a trust department might find itself liable, or even to make an approximate estimate of the amount of liability. (CONTINUED ON NEXT PAGE)

STANDARD OIL

Resigning as deputy governor of the Federal Reserve Bank of New York, where he was in charge of foreign functions, Jay E. Crane became assistant treasurer of the Standard Oil Company (New Jersey)

II. Trust Department Earnings

THE Reserve examiners, it was suggested, might well consider the question of a trust department's earning power. Here, again, it is difficult to set up a standard, but it might be feasible for the authorities to attempt to find a reasonable ratio. Obviously this matter is one that would require careful study and equally careful application.

However, the point emphasized is that if a trust department, after being in operation a few years, is not making a profit, there is a question as to whether its operations are dipping below the line of safety, since it is only against profits that reserves can be set up. The examiners might perform a useful service by calling a management's attention to the state of the profit account. Perhaps, also, they could make helpful suggestions for meeting such situations.

In the larger trust departments the examiners did not make a practice of taking an inventory of all securities; rather, they made "spot" tests of perhaps a score of separate trusts. In this connection the point has been made that where there is a periodic audit, either by an independent agency or by an independent auditing department of the trust institution itself, it is unnecessary for the Reserve to undertake its own complete audit.

III. Helpful Trust Information

TRUST examination by the Federal Reserve may prove particularly helpful to smaller departments whose facilities are limited by such factors as available personnel or volume of business.

As the examiners familiarize themselves with the operative and administrative methods employed by highly developed departments they will be in a position to make valuable suggestions to banks which do not have the advantage of extensive organizations.

Some missionary work in this direction has already been done, partly at the suggestion of the examiners. Smaller banking institutions have written to their big city correspondents for information as to various trust department procedures followed by the latter. In this manner it may be possible to strengthen still further the standards of the trust business.

A number of banks and trust companies undoubtedly found that the ex-

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C. C. of U. S.

Harper Sibley, whose home is Rochester, New York, succeeded Henry I. Harriman as president of the Chamber of Commerce of the United States

WIDE WORLD

amination caused inconvenience, although in many instances the Reserve men timed their visits to correspond with state examinations, and in every case they endeavored to do their work as quickly and efficiently as possible. During a period of widespread sentiment in favor of reducing the number of examinations and of coordinating supervisory functions of Federal Reserve, Federal Deposit Insurance Corporation and the Comptroller of the Currency, the Reserve examiners found themselves obliged to ask the indulgence of banks while still another inspection was undertaken. There is general agreement that they did their job courteously and tactfully.

IV. Quality of Trust Service

THE banks cooperated to the fullest extent. In one institution, for example, examiners were invited to attend meetings of the trust committee so that they could familiarize themselves with matters of departmental administration.

Trust opinion seems to be that the Federal Reserve Board was fortunate in its selection of the 12 men chosen to supervise the work in the respective Reserve districts. The Board endeavored to assign to each district as many qualified men as possible, although the magnitude of the task and the limited number of examiners available no doubt increased the difficulty that confronted the examining authority in this respect.

The length of time spent by the examiners in a trust department depended partly on the accessibility of the desired information. In the case of old trusts, for instance, it was sometimes hard to obtain original cost figures.

In the opinion of many trust executives, the value of the examination lies not so much in the detailed auditing of records, making of spot checks, and proving of books against control; such work, after all, cannot replace the institutional auditing whereon so much depends. Rather, it is thought, the real value will be that the examining authorities, as they gain experience, will be able from their work in going through a trust department to sense whether it is permitting the quality of its service to deteriorate, and that they will record their conclusions in this direction with the management.

F.D.I.C.

Phillips L. Goldsborough, former United States Senator from Maryland, was nominated by President Roosevelt as a director of the Federal Deposit Insurance Corporation

HARRIS & EWING

Loss Prevention

(CONTINUED FROM PAGE 21)

again told to lie face down. My feet were bound and the men drove away, leaving me with instructions to stay where I was for 15 minutes.

To shorten the story, both men were eventually arrested and brought to the county jail. The driver of the car escaped, though he was later killed in an Oklahoma gambling house. The other is now serving 25 years for our job and 50 years for a similar crime committed in a neighboring town. This time we lost all the money we had, but it was insured.

We are now protected by bullet-resisting fixtures. When we say that a "bad man", the purported murderer of one of our robbers, visited us on the pretense of changing a $100 bill only about 10 days before he himself was killed, we need not add that our protective equipment gives us a sense of security.

Our experiences have taught us several things. Among them are: Obey a robber's orders when you are covered; protect your bank with alarms and devices, but in using them be careful of the safety of yourself and associates; be cautious, also, in observing a robber with a view to later identification, for if he notices that you are studying him he may take steps that will be most unpleasant.

After these four nerve-wracking experiences we feel that we should not be asked "What would you do in case of a holdup?" It might be better to ask someone who has never looked down the muzzle of a "45".

State Banking

(CONTINUED FROM PAGE 31)

To what extent the states were able to realize on the fifth reason, preference in borrowings, cannot be definitely stated. Sufficient evidence remains that the states borrowed generously. Borrowings for current operating expenses in anticipation of tax revenues were common. State officers, court judges and other officials were compelled to accept their wages in depreciated currency, worth as low as 50 per cent of its face, but which had been received at par in payment of taxes. Missouri, Illinois, Louisiana and other states borrowed substantially from the banks they owned either in whole or in part. Which one of these three types of state owned or operated banks was the most successful will always be a matter of debate. In some states, such as Kentucky, Illinois, Tennessee, Florida, Mississippi and Alabama, the purely state management resulted disastrously, while similar banks in Ohio and Indiana were well managed and solvent institutions. In Kentucky, Illinois, Indiana and Tennessee, more than one bank was established which was managed by the state, the success of these institutions varying within the same state.

Two things stand out, however. One is that with the single exception of Iowa no state that had state-operated banks in the past is represented among those where there has been recent advocacy of reestablishing state banks. None of the seven other states have had state-owned or operated institutions. Possibly that explains some of the enthusiasm voiced by the present sponsors of such proposals. The single exception, Iowa, had probably the most successful experience in state banking.

The other important point is that the state banks, subject to control by political authority either direct or indirect, were failures to a far greater extent than the state-sponsored banks whose policies and boards of directors were not dominated by those subject to popular vote. The latter succeeded to almost the extent the former failed.

Bank Retirement Incomes

A committee of the Bank Management Commission, American Bankers Association, is preparing a model pension and retirement plan for bank personnel which, when completed, will be recommended for the use of banking institutions. Following is a description of one bank's own pension plan

BANKING institutions are taking an unusually active interest in plans designed to provide for the welfare of their employees. Smaller banks, in many instances, are writing to their metropolitan correspondents for suggestions and advice with respect to pension and retirement systems, and a more or less general interchange of opinion on the subject seems to be in progress.

Long before "social security" became a slogan of national and state governments, banks had the reputation of being leaders in the movement. Not only was employment in banks unusually stable, but a great proportion of employees had the advantage of group insurance, disability payments, retirement protection and other arrangements which secured them against misfortune and advancing years.

Often these arrangements were regarded as in advance of their times. Indeed, a survey conducted a few years ago by this publication, disclosed that bank staffs fared better than those of any other business in the matter of personal protection against some of the more important uncertainties of life.

As an illustration of how banks have endeavored to strengthen that sense of security which is now being made a subject of wide legislative attention, it may be interesting to review one bank's retirement income program. To a large extent it is typical of what innumerable banking institutions are doing and have been doing for many years, but it contains certain features that are unusual, if not unique.

This plan, underwritten by an insurance company in accordance with specifications drawn by the bank officers, is now in its second year. It is a voluntary, contributory system which provides properly qualified employees

SHIP SUBSIDIES

H. Gerrish Smith, president of the National Council of Shipbuilders, as he testified on the ship subsidy bill before the Senate Commerce Committee

HARRIS & EWING

with a liberal annuity, measured by length of service, when they reach the retirement ages 65 and 60, respectively, for men and women. The participants now embrace a large percentage of the staff.

Until the present system was installed, the question of pensions for aging employees was left to the discretion of the bank's board of directors. The staff was protected by group life and permanent disability insurance, but the institution had no automatic arrangements for taking care of persons who had given their best years to its service.

Somewhat more than a year ago a few of the officers were commissioned to draft a program that would assure protection for superannuated employees. Conferences were held with insurance men and gradually the bank's conception of what it wanted was evolved.

The bank took the position that junior members of the staff—boys of 16, for instance—had little interest in contributory insurance for an old age that was still far distant. Their sales resistance to such a proposal, it was believed, would be a difficult obstacle to surmount.

However, a man of 30 has become well settled in life and can be regarded, at least theoretically, as a permanent employee who will be interested in protecting the future of himself and his family. Before him are probably 35 productive years; he has passed the age of experimentation, has chosen his vocation definitely, and looks ahead to a career.

Again, the bank thought it should retire employees after their working days were over, and it wanted an arrangement that would make retirement a certainty. Also, it preferred to have the administrative responsibilities rest outside the institution.

Accordingly, the 30–65 year group annuity plan was decided on. No effort was made to "sell" it to the employees; rather, its advantages were explained to them and they were given the decision of whether to accept or reject.

Each participant makes an annual contribution of 5 per cent of his or her annual "effective salary", the latter being determined on April 1 of each year. The contributions are deducted by the bank and sent to the insurance company. The amount of retirement income is two per cent of the effective salary for each year the employee has contributed.

In addition, the bank is purchasing over a period of years an income of 1½ per cent of each participant's salary in recognition of every year of continuous service prior to the date the plan became effective but subsequent to the

LITTLE AMERICA

Rear Admiral Byrd returned recently from his second expedition to the Antarctic. He collected much additional geological and meteorological data

ACME

minimum age of 30. However, no employee who joined the staff after age 29 gets credit for the first year.

The bank pays all the cost of past service benefits purchased, and adds to the employees' contributions the balance of the net cost of future benefits.

The protection afforded an employee by the plan includes:

1. A fixed income on reaching retirement age, computed on the basis above mentioned; or

2. A cash refund of 100 per cent of his contributions, with interest, if he leaves the bank for any reason prior to retirement age; but contributions may be left in the fund to provide an annuity payable from the retirement age; or

3. A death benefit, payable to the beneficiary, equal to 100 per cent of the contribution, plus interest, less any retirement income that may have been paid; or

4. Certain options may be chosen instead of normal retirement income, these including provision for continued income after death to any dependent.

When an employee dies before retirement, his beneficiary receives his total contributions plus three per cent interest, compounded annually. If the employee dies after retirement but before he has received an amount equal to his contributions plus interest to the retirement date, the balance is paid to the beneficiary.

On termination of service he has three options.

1. His contributions may be left with the insurance company and he will receive a monthly income for life at the normal retirement date, the amount being determined by the contributions made.

2. He may continue his payments direct to the insurance company at the group rates, receiving a monthly income for life, beginning on the normal retirement date.

3. He may give up his certificate and get in cash his total contributions, plus 3 per cent compound interest.

In its outline of the plan the bank informs employees that it expects to continue the program indefinitely, "but must necessarily reserve the right to change or discontinue it at any time."

"However," says the summary (and this is important), "one of the strongest features of the plan is that any change or discontinuance made by the bank cannot affect the retirement income benefits secured by the employee's and the bank's contributions made prior to the date of such change or discontinuance."

Thus the payments are fully protected against any contingency, such as merger, liquidation or other unforeseen circumstance.

ANTARCTIC PLANS

Lincoln Ellsworth, American explorer, intends to make another expedition to the Antarctic next Fall. Important aerial observations will be made

ACME

Import Insurance

WITH the repeal of prohibition came the request to eastern banks to extend credit covering liquor importations into the United States. Thus among these banks a problem arose of adequately protecting themselves by insurance against risks attendant upon importation and distribution.

Under a ruling of the Commissioners of Insurance Underwriters adopted June 1, 1933, a full coverage policy by one company on goods in a definite locality was prohibited. To cover the risks adequately it seemed necessary to take out a number of different policies in different companies to afford the proper protection to the bank. It was learned, however, that the marine and transportation policy commonly used in this country would amply cover most of the risks involved. This type of policy would afford protection to the merchandise from the warehouse of the exporter or shipper abroad to delivery to the wholesaler or his warehouseman in this country.

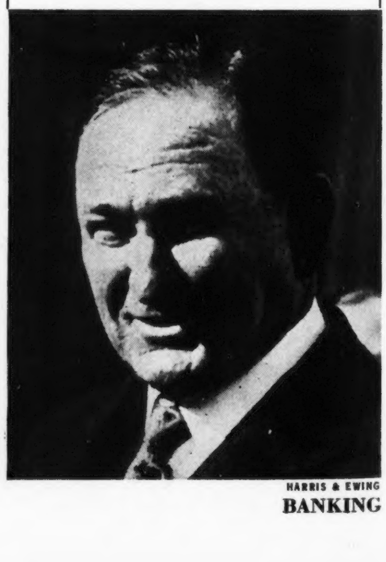
The insurance on the commodity is generally placed by the importer, and upon borrowing against an importation the problem has arisen as to how to prevent cancellation or alteration in the policy without the banker's knowledge. To forestall this contingency, it is necessary either to have the original policy name the bank as the insured and be lodged with the bank in the loan envelope, all claims under the policy being paid to the bank, or if the original policy names the borrower as the assured it must be covered by an assignment by the assured in favor of the bank.

This assignment must be assented to by the insurance company and should be endorsed by it on the policy. An important fact sometimes overlooked is that the assignment or endorsement on the policy is inoperative and does not vest any claim in the endorsee unless specifically assented to in writing by the company.

In the event that no policy is lodged with the bank but it is reasonably certain that insurance has been placed by the borrower, a statement should be obtained from the insurance company that since the bank is an interested party to the insurance a notice of alteration or cancellation in the policy will be sent to the bank at the same time the client is advised. Interest in the

SENATE

Senator Joseph T. Robinson, majority leader in the Upper House, where several important issues have been strenuously contested



HARRIS & EWING

merchandise of course can be legally proved by the warehouse receipts.

A consideration in connection with insurance is the broker. He acts as a sort of contact between client and insurance company and as a collector of claims under the policy. He keeps abreast of new rulings and decisions affecting insurance policies. Banks are not insurance brokers and therefore cannot be expected to follow so closely various legal ramifications.

No hard and fast rules can be laid down to cover all the contingencies which arise from the importation and distribution of liquor, but it is well to remember that a marine and transportation policy covers goods imported on: (1) consignment and (2) not on consignment, but stored where the importer generally stores goods of that nature.

"These goods," the insurance commissioners ruled, "are considered imports as long as they are segregated in their original form or packages so as to be readily identifiable and while not incorporated with other masses. The policy is cancelled and closed upon delivery of these goods to a factor, another consignee, sold to a retailer, placed on sale by the importer in smaller lots, delivered to the manufacturer for change in form. These policies do not cover the risks of fire, sprinkler leakage, earthquakes, riot and/or civil commotions on buildings, wharves, piers, docks, structures or bulkheads or shed."

HENRY F. KOLLER

F. R. S.

Elliott Thurston, Washington newspaper man, has been appointed special assistant to the Governor of the Federal Reserve Board

HARRIS & EWING

Selling Bank Booklets

IN a communication to BANKING, W. R. Morehouse, vice-president, Security-First National Bank, Los Angeles, suggests that banks make a charge for the miscellaneous booklets which they now give away. The idea may be of interest to bankers generally and the substance of Mr. Morehouse's proposal is presented herewith:

IT IS not unlikely that within the next few years the free distribution of miscellaneous booklets by banks will have passed into history, and that the expense account for these booklets will stand on the bank's ledger at zero, while the number of pamphlets used will probably increase.

Booklets will be handled in two classes—those of high educational value and those of an inspirational nature, while the quality of the contents will be

much superior to the average now in use.

I predict that before long banks will have booklets for sale at actual cost to them. In some cases they will be distributed through automatic machines, although personal delivery has the advantage of direct contact with the recipient, and should be the rule, not the exception.

This change in handling booklets would save banks hundreds of thousands of dollars annually, and it would also eliminate the principal wastes due to the mania of many people to carry away anything that is free because it is free, without regard to the fact that they have no particular use for it. The cost to customers would be ridiculously low—probably not over five cents a copy with ten cents as a maximum price.

If properly handled this new plan could be made to expand the use of booklets as an educational and inspirational medium for banks. The big question is: "Will the public pay five cents or ten cents, as the case may be, for a good booklet that would ordinarily retail for 25 cents on the news stand? Will the public read a booklet after paying for it?" Naturally everything will depend on the contents and the quality of the booklet, and how much benefit the reader will derive from studying it.

Twenty years ago it was contended that bank depositors would not under any consideration pay a service charge on their checking accounts. It was held that they would rebel and close their accounts. Much to the surprise of many bankers, customers didn't rebel, nor did they close their accounts in any great numbers, but chose to pay the small charge.

LIKE SERVICE CHARGES

BECAUSE of my experience with the service charge and my belief in the fairness of the American people when they understand a proposition, it is easy for me to believe that a small "paper and ink" charge for superior booklets would meet with great success. After all, it is simply a matter of selling the idea to the public, just as it was a matter of selling the fairness of a service charge on small unprofitable accounts.

There will be this difference: Selling a hundred-page booklet for not over ten cents will be easy as compared with selling a service charge on a checking account. Of those using a checking account, a majority have but the va-

BALKANS

Leland Harrison has been appointed United States minister to the important Balkan post at Bucharest, Roumania. Mr. Harrison is a former tariff commission member

HARRIS & EWING

guest idea of the amount of work and expense involved in upkeep, and may even feel a small account is profitable to a bank, while no one could question the value of a booklet which would ordinarily retail for 25 cents in any store.

Probably for the first year not as many booklets as formerly will find their way into circulation, for a small charge is certain to eliminate people who have a habit of carrying away anything that comes within their reach because it is free. However, such a decrease in the number of booklets will not represent a decrease in the effectiveness of this educational medium for banks. Ultimately, it will result in placing booklets in the hands of a selective class of interested people, at the same time eliminating the present great waste in the booklet field.

PROFITABLE DISTRIBUTION

THE man or woman who willingly pays a small sum for a good educational pamphlet on some phase of banking or banking service, such as bank checks, deposits, or trust department service, signifies by that act that he or she is interested in learning more about the banking business and how our banks are prepared to serve them.

Wouldn't it be better for a bank to sell 30 booklets a day at cost than to force out 100 copies to Tom, Dick and Harry whose only interest in them is to carry them away because they are free? Of course, there are exceptions, else there have been great wastes in the past. At least, the 30 represent good prospects for business.

Ordinarily when a bank pays the full cost and uses its booklets as sparingly as possible, it never gives more than one copy to a customer if giving out several can be avoided. Its policy is one of holding back the supply of booklets sometimes too long, or until they become stale and valueless.

Let's compare the present plan of handling booklets with the proposed plan from still another angle. Under the system suggested a bank's only expense will be represented by the time and effort necessary for arranging the material, and the wholesale cost. In other words, the depositor is to receive the benefits of a large quantity price.

Under this arrangement the use of booklets should be greatly stimulated, for instead of banks holding back on their supplies because of the expense involved, the material would be sold without limit to all who are willing to pay the small fee. The old rule, "only one to a person," will be dispensed with. Instead, booklets will be conspicuously displayed with attractive advertisements of their contents and how they may be obtained.

CHACO

Hugh Gibson, American Ambassador to Brazil, will represent this country in the joint conference on the long protracted Chaco dispute

HARRIS & EWING

Temporary Employees

IT is probably unnecessary to remind banks that thousands of high school boys are on their annual hunt for vacation jobs.

Each year banking institutions get their full quota of applications from youths who want to work during the Summer months and who pick the local bank as a likely place to offer their services. In many instances they are told that the bank does not make a practice of adding temporary employees to its staff, especially if the boy has little or no idea of entering the profession when he has been graduated.

However, one banking institution which heretofore has taken this position is considering an experiment with school boys during the coming vacation season. This bank's custom has been to recruit most of its junior employees from the graduating classes of commercial schools, starting them as pages and allowing them to work up in the ranks as fast as their abilities develop.

The purpose of the experiment would be to determine whether it is feasible to attempt the training of younger boys. Would they be better prepared for permanent employment by working a vacation or two and thus familiarizing themselves with the routine? Would they become sufficiently interested in banking to select it as a career? If so, the bank would stand to benefit from the months of preliminary training, for the youths would have a good start.

A Banking Connection

A DEPOSITOR walked into his bank about 2 P.M. and asked if it were possible to secure steamer tickets and passport so that he might sail that evening; he had just received a cable stating that his son was seriously ill in Italy.

The bank communicated with the passport agency in New York which in turn telephoned to the Department of State in Washington for permission to issue the document. Photographs to accompany the application were taken and developed in the photostat department of the bank and forwarded by special messenger to the passport office. Issuance of the passport having been approved at Washington, the paper was then viséed and rushed to the bank.

Meanwhile, the foreign department was busily preparing traveler's checks and letters of credit, as well as booking passage for that evening's sailing. Foreign currency was secured for the customer's convenience. Instructions were drawn up regarding the purchase and sale of securities while the client was abroad, as well as instructions regarding the forwarding of mail, telegrams and cables.

To facilitate the trip, cables were dispatched to the bank's foreign correspondents requesting hotel and railroad accommodations for him.

Less than two hours after the depositor had inquired about the possibilities of the bank's services, he had been provided with steamer passage, passport, visé, letter of credit, traveler's checks, mail, securities, railway passage, hotel accommodations and foreign currency, all without additional charges to him except the usual letter of credit fee and traveler's check commissions.

HENRY F. KOLLER

Insured Mortgages

IN a report to the annual conference of the National Association of Mutual Savings Banks, A. George Gilman, president of the Malden Savings Bank, Malden, Massachusetts, said of insured mortgages: "While this type of mortgage is less important in states having mutual savings banks, we cannot afford to overlook the fact that these mortgages are intended to cure defects in present methods of writing mortgages.

"We must consider carefully the advantages of a long term mortgage, with definite provision for amortization, with arrangements for payments of taxes and interest by small advance monthly instalments, and with the consequent feeling of satisfaction on the part of the mortgagor that his loan cannot be called at short notice if an emergency arises in the bank holding the mortgage; also that his debt will be fully extinguished at the end of the period, the property then becoming his own, free and clear. The bank holding such an insured mortgage, on the other hand, has an opportunity to rediscount that mortgage in case of need or if a demand for new mortgage money arises."

P.W.A.—R.F.C.

IMPROVING credit of municipalities and states is having a marked effect upon the net amount of credit the P.W.A. has been able to lend. Actual expenditures of the administration seem to be running along at about the same rate as last year but repayments reduce outstanding advances. In April total net expenditures amounted to less than $50,000,000, as compared with about $70,000,000 in April last year, this year's total being affected by repayment of about $12,000,000 in previous loans to states and municipalities. In the first half of May net expenditures amounted to only about $24,000,000 because about $17,000,000 of previous loans had been repaid by railways. The Tennessee Valley Authority has been spending more money, but expenditures on highways have been less.

WORK RELIEF

THE whole works program, both in its Government spending and credit grant phases, waits upon the development of the new work relief program. As anticipated, it is now evident that it will be well into the late Summer or early Fall before the effect of the new program can be appreciated—in fact it seems probable that in the interim the expenditures or credit grants of the Government will fall below recent monthly averages. On the other hand, once the program is under way the outlay will be larger than anticipated. The P.W.A., for example, had expended up to May 1 only $232,000,000 of the approximately $750,000,000 it has allotted in loans and grants to states and their subdivisions. Hence there is over $500,000,000 yet to be expended in enterprises already in hand, most of them in the actual construction stage. It is expected that another $900,000,000 will be allotted from the $4,000,000,000 work relief fund for new loans and grants to states.

Congress also has appropriated a total of $450,000,000 for various housing enterprises, of which only about $136,000,000 had been allotted and less than $10,000,000 actually spent. Irrigation projects up to May 1 had absorbed only about $87,000,000 out of $200,000,000 allotted for the purpose; public building projects had absorbed about $45,000,000 of the $114,000,000 appropriated. The Navy Department has spent about half of its $277,000,000 allotment. Altogether there is nearly a billion and a half dollars already appropriated and in the course of expenditure on public works or work relief in addition to the new $4,000,000,000 fund. This total will be materially increased by the P.W.A.'s sale of state and municipal securities.

The business of the R.F.C. is now more or less static. In April it put out only about $6,000,000 more than it received, and since the former included the $10,000,000 capital of the R.F.C. Mortgage Company, the loans to business generally were reduced by about $4,000,000. Subscriptions to capital stock and other capital funds of banks were reduced by net repayments of about $2,000,000 during the month. Loans to self-liquidating enterprises increased by $1,200,000 net and loans on cotton through the Commodity Credit Corporation increased by $10,000,000. Banks and trust companies reduced their indebtedness by a net of $15,000,000. Repayments on all outstanding advances of the corporation increased from 53 per cent to 54 per cent of all original loans. The R.F.C.'s brokerage transactions for the P.W.A. in municipal bond issues up to May 1 aggregated $86,442,050.

George E. Anderson

Banking-by-Mail

By I. I. SPERLING

Assistant vice-president, Cleveland Trust Company, and president, Financial Advertisers Association

UNTIL recently the various banking-by-mail services offered by banks throughout the country were limited to the handling of savings deposits and withdrawals. Experience has shown the Cleveland Trust Company that the idea can be adapted for the use of local commercial customers for deposit purposes.

With the regular monthly statements and cancelled checks, the bank encloses a patented envelope which in itself is a complete unit. The customer wishing to deposit checks by mail endorses them, places them in the envelope, fills out the portion which is an actual deposit slip, self-addresses another portion of the envelope, the back of which is a deposit receipt, and mails it to the bank. The handling in the bank is very simple and the vehicle which brought the check also becomes the means by which receipt is acknowledged.

The new method is growing in favor wherever it is tried, largely on an experimental basis at first, and may ultimately do away with some of the cost of furnishing customers with commercial passbooks.

There is also a potential reduction in lobby traffic at peak times, particularly Saturdays, and at lunch time and closing time. The new device is also a conserver of the patience of customers who might otherwise have to wait in line.

In a folder of instructions, describing the combination deposit slip and receipt envelope, the customer is told:

"With this simple unit, you can bank at any hour of the day or night, with frequent saving of time, steps and considerable inconvenience. There will be no conflict with banking hours, unpleasant weather or parking problems. There will be no waiting in line at a teller's window if he is busy.

"All you need to do is to make out the deposit slip on the pocket of the combination banking-by-mail envelope, endorse your checks according to instructions on the envelope flap, insert your deposit in the envelope pocket, seal, stamp and mail. By return mail you receive, as your receipt, the very flap of the self-addressed, return portion of the envelope in which you forwarded

your deposit, together with a fresh envelope for your next mailing. This receipt can be destroyed after you have verified the deposit on your following monthly statement."

In the case of our institution, there was a peculiar situation with regard to early use of this envelope. This bank, a pioneer in the original banking-by-mail service years ago, was also one of the earliest operators of branch banks in the United States and now has some 55 banking offices functioning throughout Greater Cleveland. In order not to negate the feature of branch convenience which it has always regarded as one of its greatest merchandising assets, the introduction of the new envelope was accompanied by the statement that "while we shall always be glad to see you in person in our bank, we offer this new banking-by-mail service as an additional convenience."

All the incoming envelopes are routed to a central mail department which automatically mails back the deposit receipt and then sends the item to the proof department, which in turn routes the deposit ticket to the bookkeeping department and the items to clearance or transit, as the case may be.

Our mail clerk reports a saving of time of approximately one hour per 30 deposits received. It is easy to estimate that a bank with 100 such operations a day would effect a substantial saving in time or the release of employees for other duties.

PUBLISHING HEAD

J. D. Barnum, publisher of the Syracuse (N. Y.) *Post Standard*, has been elected president of the American Newspaper Publishers Association

ACME

Public Interest in Bank Lobby Displays

DISPLAYS of customers' products in bank lobbies and windows offer opportunities for attracting wide public attention.

Newspapers and banking institutions have a mutual interest in community welfare, and the press, especially in smaller places, is usually glad to cooperate in legitimate promotional enterprise. Bank displays, in short, have news value.

Numerous banks report that their exhibits on behalf of customers receive considerable space in the news columns of local papers. The publicity for the bank may be less tangible than that for the manufacturer or merchant whose goods are exhibited, but it does serve to identify the financial institution with a town's industrial and business life, reminding residents that the bank is actively interested in community prosperity.

If a newspaper editor finds news in the fact that a bank gives prominence to doughnuts, pickled peaches or plumbing supplies, or that, from a broader viewpoint, it is giving friendly support to the business concerns which supply the locality with a livelihood, it is certain that numberless laymen will be equally interested. The influence of publicity cannot be measured entirely by so much space on a page of the daily paper. It extends to the uncountable persons who see the display or hear about it from their friends. The impression created may be quite fleeting, but it will be a favorable impression. Passers-by or visitors in the bank may not care whether the products featured in the exhibit are made by a customer of the bank, yet the association is unlikely to escape notice. A more important reaction on the part of even the casual observer, however, is that the bank is a community-minded institution.

Many banks speak enthusiastically of the newspaper notice which these displays receive. In at least one instance a paper has suggested a way to extend the service rendered by the bank to its city, and in a large number of cases the local press carries extensive news articles describing the exhibits.

Early this year a bank in an eastern city drafted an aggressive business-banking campaign, featured by varied displays in its lobby and considerable newspaper advertising. Each week a local manufacturer, whether customer of the bank or not, is allowed to show his products at the institution. On the Saturday preceding the week allotted to him the bank prints, at its own expense, an advertisement featuring the particular industry which is to have the space during the coming interval, and when the display opens the paper carries an article describing it in detail.

The city editor suggested that the bank coordinate this program with weekly meetings of the Rotary, Kiwanis and Lions clubs by having a representative of each industry address these organizations during the week of its exhibit. The bank doubted whether it could devote so much additional time to the program, but the instance serves to illustrate the friendliness of the press to constructive ideas.

A banking institution in another state found that its local newspaper was willing to cooperate to the fullest extent in publicizing the promotion of the city's commercial activities. Articles describing the various displays of goods appeared under double column headings.

ROBERT B. HANSEN

The New Jersey State Safe Deposit Association, of which Mr. Hansen is president, is host to the National Safe Deposit Convention at Asbury Park, June 7 and 8

Small Loans

THE following communication is from Robert O. Bonnell, president of the Morris Plan Bankers Association, Baltimore:

To the Editor:

I am writing with reference to the article entitled "A Small Loans Department" which appears on page 83 of the April issue of BANKING. The statement that ". . . the few banks in the big cities which had invaded the personal loan company field at enormous savings to borrowers in financial costs" is hardly an accurate statement. If you had compared the Community National Bank's small loan rates of 6 per cent discount on amortized loans with the rates of chattel loan companies which charge as high as 3½ per cent a month or 42 per cent a year, the statement would have been justified. On the other hand, if your readers are led to compare the Community National Bank's rates with the rates of Morris Plan and other legitimate industrial banks (which you definitely have done because they likewise operate in "the personal loan field"), then the article has been unfair and inaccurate.

There are very few Morris Plan banks which charge more than 6 per cent per annum discount on amortized collateral loans, and on co-maker loans, which usually require the investigation of three persons, an additional charge of approximately 2 per cent on the smaller loans is charged, this investigation charge receding as the amount of the loan increases. Many Morris Plan banks charge no investigation fee whatever on any loan of $1,000 or more and some of them make no additional charge above the straight 6 per cent discount on loans of $500 and over.

The article infers that the establishment and operation of a personal loan department in a commercial bank is a decidedly simple matter and that specialized knowledge of the personal loan business is not necessary in order to make it a success. Experienced bankers know that the personal loan business is a highly specialized business. Consequently there is grave doubt about the wisdom of the establishment of personal loan departments by any except those who are well versed in the technique of industrial banking, and it should be undertaken only after a thorough study and an unprejudiced consideration of all the reliable facts from authoritative sources.

The bank in question claims to have netted something like 7 per cent on the workings of its small loan department but fails to define what is meant by "workings". If by "workings" is meant "volume" then the statement, to any skilled operator, will appear ridiculous and would seem to indicate a sad lack of knowledge of the real facts.

Morris Plan institutions throughout the country welcome *sound* competition. They stand ready to cooperate with commercial banks and others to the fullest extent, but we are afraid that casually written articles of the type referred to above will encourage hasty and ill-considered action which can only result in *unsound* practices.

ROBERT O. BONNELL

Ledger Posting

SOME hand-posted books can be made into mechanical records at a saving of time and expense to the bank.

Numerous banking institutions of smaller size use a loose-leaf, hand-posted general ledger and at the end of each year purchase transfer binders for the used sheets. This ledger is perhaps the easiest hand-posted bank record to change to a mechanical system.

Inasmuch as it and the individual ledger are posted similarly, the same sheets can be used for both records. Placing the general ledger on the machine will not only save the expense of buying binders but will also reduce operating time on the book by at least one-half.

Most small banks have two or more posting machines which will turn out a large volume of work daily if kept in continuous operation. For example, one of our machines works under the following schedule:

At 8:30 o'clock in the morning the general ledger is posted. Beginning at 9 o'clock the posting machine is used to prove the incoming cash letters. At 10 o'clock a proof of the previous day's posting on the individual ledger is taken. Next, the liability ledger is posted by inserting a special stop bar on the machine.

From 1 to 3 P.M. the machine is used to prove batches of deposits and checks, as well as the local clearing. After closing time the checks and deposits are added on the journal and the individual ledger is posted.

GEORGE R. SMITH
Cashier
Commercial National Bank
Demopolis, Alabama

Interest Rates

CHEAP money, cheaper and cheaper as the days go by, seems to be the policy of the Government both in its own banking concerns and in its influence upon the commercial banks of the country. Present prospects are that the excess reserves of member banks in the Federal Reserve System will reach the $3,000,000,000 point by mid-Summer. Unofficial calculations show that on May 15 these reserves stood considerably above $2,300,000,000. In July and August the Federal Treasury is to redeem in cash the outstanding consols and Panama Canal bond issues which have been the basis of national bank circulation for many years. These bonds will be paid for by gold certificates which will be deposited in the Reserve banks. The money paid for them to the banks which have pledged them against national bank circulation will become deposits of member banks in the Reserve banks and will, in the absence of available investments, become excess reserves—over $600,000,000 in amount.

The situation is emphasized by the fact that it will be some time before the national bank notes now in circulation will actually be withdrawn from use. The Treasury expects to cancel them only as they wear out. This means a certain amount of money which the Treasury can use without interest pending its retirement—an informal variety of loan which inflates the currency to the extent indicated. It is to be noted, also, that while the Reserve member banks have excess reserves of more than $2,300,000,000, and in a few weeks will have more, this does not indicate the full amount of unused funds held by the commercial banks. State non-member banks also have unused funds in proportion to their assets.

REDISCOUNT RATES

FURTHER indication of the policy of the Federal authorities as to interest rates appears in the reduction of the rediscount rates of the Reserve banks. During the past month the rediscount rate of the Cleveland bank was reduced to 1.5 per cent—the same as that of the New York bank. There is a general understanding that about June 15 the New York bank will reduce its rate to 1 per cent. In the meanwhile the rates of all other Reserve banks, except the one in Minneapolis, have been reduced to 2 per cent. The effect of these reductions is purely psychological, since the total of bills bought and bills rediscounted by the Reserve banks has for weeks hovered around 11 or 12 million dollars.

Practically, however, these changes serve to point interest rates downward. This may be for the purpose of encouraging borrowers for business purposes, or it may be to aid the Government in its heavy relief fund financing. Whatever effect the change will have on business, it will certainly aid the Government in its borrowing campaign. Nor is it without significance that, about the time these reductions in rediscount rates were being made, New York Clearing House banks decided to pay no interest on new time deposits, and call money fell to ¼ of 1 per cent.

George E. Anderson

One Department for Insurance

SEVERAL years ago the insurance required by one banking institution was handled by various officers. The secretary bought certain types, including general coverage for the bank's operations; the trust department placed all the policies required in the administration of estates; and the commercial credits and collection departments attended to the necessary protection on merchandise shipments. The matter of maintenance—renewals and premium payments—was also the responsibility of these officers.

Today this bank has a separate insurance department that acts as a service division for the entire institution. It buys and looks after all forms of insurance: the bank's own, collateral protection, trust department insurance, policies on real estate, etc. There is no division of responsibility, no duplication; everything pertaining to insurance goes through this specialized division. The result is efficient coordination.

At the head of the department is a trained insurance man who is thoroughly familiar with the insurance field, especially the branches related to banking. Also, he has been a practical banker. When the department was organized he made a thorough study of the bank's insurance protection and adjusted the program to fit the requirements. Incidentally, a substantial cash saving was effected through discontinuance of superfluous insurance.

One important service of this department has been the development of insurance mindedness throughout the bank. Explanation has been given to employees, especially those in key positions, of the real nature of insurance protection and their responsibilities in helping the bank meet its part of the contract. The department confers with other department heads about their general and specific insurance problems and explains the features of new policies as they are acquired. Each year it prepares a simple chart of the bank's insurance, showing the type, location of risk, causes for loss and the amount carried under each heading. A copy goes to each operating officer.

ADVANTAGES

THIS bank has found that its system has numerous advantages, especially for a large institution. In the first place, the bank is confident that it is properly insured, whereas under the former arrangement the various departmental executives were often not in positions to study their problems in the light of expert knowledge or of a unified program.

Again, the system saves time. It is a clearinghouse for all inquiries about insurance, relieving the officers of the many details that constantly arise in connection with the administration of thousands of policies. Also, the department conducts all the interviews with brokers and agents.

The bank knows that its insurance is being handled by responsible companies. There is no limit to the amount that can be placed with any one underwriter, but the department is thoroughly familiar with the financial standing of all and buys its policies strictly

on a business basis. No insurance is purchased because the broker happens to be a friend of an officer.

Examining the system in more detail, some interesting advances in efficiency come to light. For instance, in handling real estate for personal trusts there is an individual as well as a fiduciary liability of the trustee. The fiduciary liability had always been insured by the usual form of general policy, but when the insurance department went to work it was able, without additional cost, to cover both individual and official liability under one policy.

Merchandise in transit or storage must frequently be insured by the departments interested in its safety. Goods are often not delivered to the consignee because the covering documents have not been received by the institution, and formerly the shipments remained uninsured until the papers were at hand. The bank now has an open blanket policy that automatically insures such merchandise.

SPECIFIC INSURANCE

IT was once the practice to accept "brokers' certificates", rather than insurance policies, in connection with secured loans and advances. The bank now obtains from these customers specific insurance, written in its own name, on all commodities except cotton, sugar and grain. On these three, which are usually covered by open policies, the insurance department analyzed the forms of insurance and pointed out the weaknesses and difficulties to which the bank might be subjected in order that the credit risk may be otherwise safeguarded.

Important changes were effected in protecting the bank on shipments of cotton. The so-called "bankers' letters" furnished by the shippers indicated the form of insurance that had been placed on the commodity, as well as the name of the company protecting it. Many shippers store cotton in warehouses issuing insured warehouse receipts, assuming that the proper insurance would be available. However, none of these excepted locations was being mentioned in the letters, and the form of this document was changed at the suggestion of the insurance division to include the mention of the locations, thus enabling the bank to avoid taking as collateral cotton warehouse receipts which were excepted from dealers' insurance.

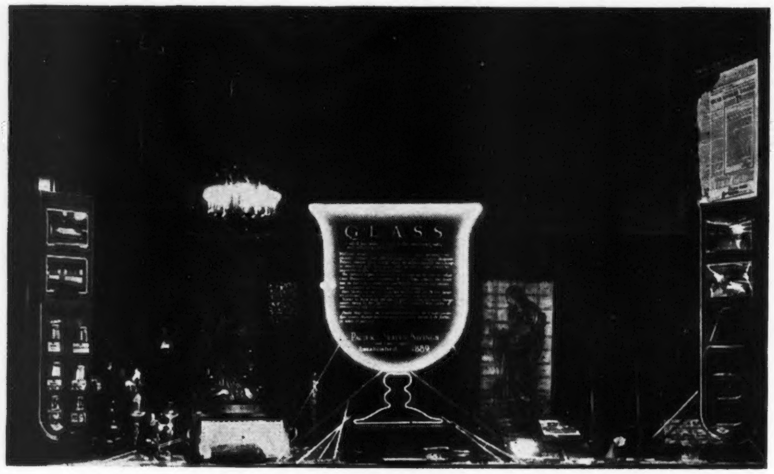
The commercial credits division formerly received many policies that did not meet the conditions of the bank's letters of credit. By means of personal contacts with the insurance companies, the bank, through its insurance office, was able to get prompt revisions that eliminated many delays which otherwise would hold up payments.

Also, the insurance manager found that the bank was carrying unnecessarily heavy coverage on cash in transit. The amount of protection exceeded by a rather liberal margin the currency the institution had occasion to transport, except in rare instances, and the policy was reduced. When abnormal shipments are required the department concerned notifies the insurance office which, at a reasonable premium, obtains temporary protection for the specific transfer.

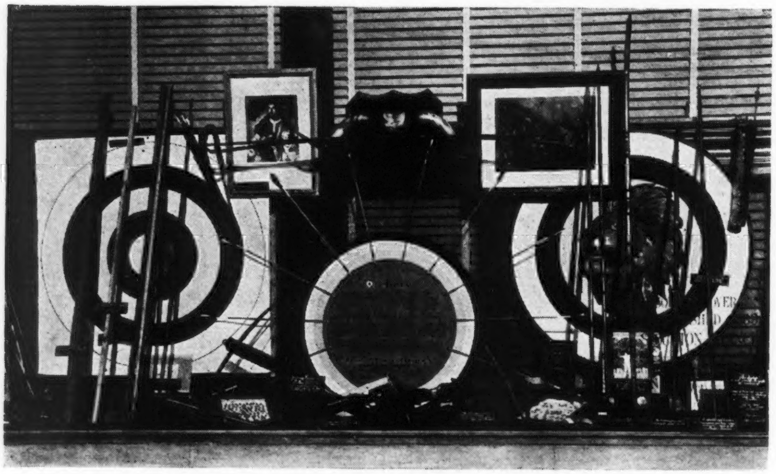
The insurance department acts as custodian for all the policies carried for the protection of the bank, except those on collateral loans when policies are required for quick delivery as collateral is released. All departments refer every new or renewed policy, as well as every question bearing on protection, to the insurance office for a check-up.

The centralized system is helpful to the insurance companies, for it concentrates their contacts with the bank in a single office.

Bank Windows



A window display showing the uses of glass and explaining some steps in its manufacture. About 20 concerns were represented



The paraphernalia of archery made up this exhibit. There was a prominently displayed exhortation: "Aim your savings — Hit the mark!"

BANK window and lobby displays, whether of customer products or of a banking institution's own services, offer possibilities as media for effective advertising and constructive publicity.

The experience gained in arranging more than 600 window displays forms the basis for this compilation by John B. Matthew, a California advertising man.

* * *

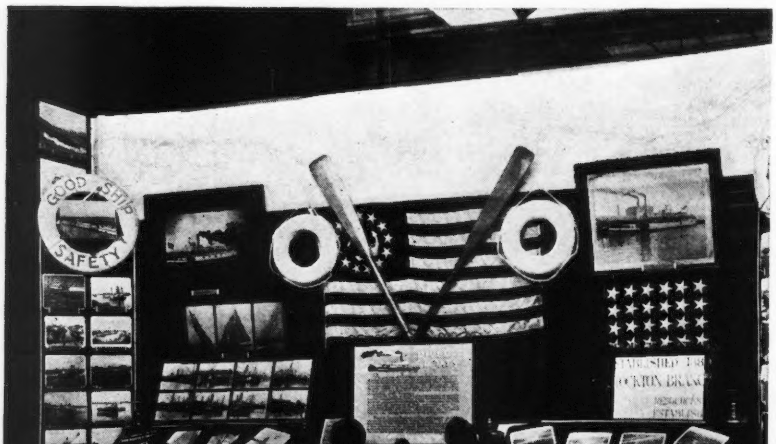
The window display offers a most interesting and effective means of advertising available to a bank. Enhanced by artistic arrangement, good design, adequate lighting and informative copy, it will attract and hold attention.

It is an inexpensive medium because the advertising space is already paid for, and the concerns and organizations mentioned in the displays are usually glad to cooperate by furnishing the material. Thoughtfully planned educational exhibits can demonstrate the bank's leadership in the community.

Many banks, of course, have tried displays with varied results. However, it is noticeable that three rather obvious mistakes have been made in most of the unsuccessful experiments. First, the windows were too small. Second, the material exhibited had no real human interest appeal. Third, a vital message of security and financial service, linked with worthwhile information, was very evidently lacking.

Some banking institutions are still using commonplace methods for the presentation of their services to the public. Such phrases as "Save For a Rainy Day", "A Penny Saved is a Penny Earned", "Be Thrifty—Open an Account Today", are not only platitudes, but may even arouse considerable resentment among many people, including merchants who want spending stressed.

What should be the content of displays today? Many banking departments other than savings should now be emphasized. There is much in these services that can be illustrated and explained with the aid of educational ex-



River commerce was the theme of this window. Models of ships are often easy to procure. The ships' lanterns here were lighted at night

hibits, and few other methods offer this opportunity to bring the bank's message to the public so effectively.

Just how valuable is a bank's window space? When it is realized that business firms consider that their frontage is 45 per cent of the rental value even though the property be 100 feet deep, it is evident that banks have an excellent opportunity, if not an obligation, to make use of it. Why should the front of a bank be a frozen asset? One banker who had never used his display windows was amazed to receive an offer of $500 a month rental from a neighboring store which wanted to exhibit merchandise in them. Of course, some banks do not have available windows, but many have overcome this lack by constructing decorative display cases on the exterior of their buildings.

The first requirement in any successful form of advertising, of course, is that it attract attention. The pictures accompanying this article exemplify one type of display which accomplishes that mission most successfully. There are many popular methods, but educational exhibits have tremendous pulling power with people young and old.

The material is inexhaustible and may be so varied that something novel and entirely different can be employed in bimonthly displays, literally for years at a stretch. This system of assembling and describing objects, somewhat after the fashion of modern museums and fair exhibits, produces displays with wide popular appeal. It recognizes the innate curiosity of people and their desire to learn interesting facts.

Such exhibits also prove valuable in indirectly advertising local industries and enterprises. This has been done for some time, but often somewhat distastefully. For instance, some product in containers is heaped in the window, or perhaps an assortment of automobile tires and accessories is haphazardly arranged; the general effect is rather out of place in a bank. It may attract attention, but the impression is apt to be unpleasant.

Contrast an arrangement of that type with a display which is more general and gives some actual information. As an example, the subject of rubber might be successfully handled in this manner: Attractive photographs of plantations and a pictorial description of the development of the product from its origin to the finished manufactured article can be supplemented by samples of the milk, latex, crude rubber and finally by examples of the uses of rubber in dozens of industries, ranging from "floating power" in motor cars to rubber bathing

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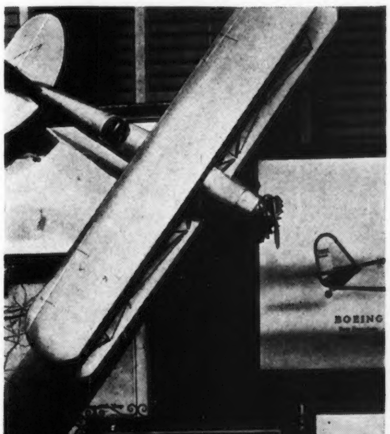
The picture below and the others in this article are of window displays at the Stockton Branch of the Pacific States Saving & Loan Company



Airplane models, photos and maps can be used in an exhibit on air mail

Timeliness is always a factor to be taken into account. The bank window display below was largely made up of photos and wall-board cutouts

suits. Many concerns can be mentioned on the small cards which describe the various objects in the display, thus greatly enlarging the bank's opportunities to foster customer good will.

The public recognizes such efforts as promotion of local business and industry and also appreciates the educational value of the display. At the same time the exhibit offers a tie-up with bank advertising. Thus it fulfills all the requirements of a successful advertisement.

Educational displays may be drawn from historical subjects, nature, science, public institutions, etc. The extent to which public interest can be aroused by skillful presentation of material is illustrated by the fact that a display covering a fingerprint identification bureau was viewed by 50,000 persons in a city of 110,000. In smaller communities early photographs of local organizations such as bicycle clubs, athletic teams of the Nineties, childhood pictures of local celebrities and old scenes about town, contrasted with the present, all create friendly comment and good will.

Various aspects of the banking business itself can be made subjects of displays. Money, for instance, always attracts attention. The modern equipment of the up-to-date bank, contrasted with the old methods of serving customers and their accounts, gives evidence of efficiency. The new method of photographing checks, and descriptions and pictures of the safe deposit vault are examples of protective services. Other interesting material includes old wills, early banks, banking by mail, trusts, and unusual home-made hiding places for cash.

The national game will furnish a topic for window displays during summer months. Both national and local teams can be featured

Prevention Means Protection

JAMES E. BAUM, Deputy Manager, American Bankers Association, Protective Department, addressed the 45th Annual Convention, Tennessee Bankers Association, at Chattanooga on May 22. His subject was "Prevention Means Protection."

"In the face of the widespread publicity given crime in this country," said Mr. Baum, "and the repeated warnings sounded directly to banks, our investigations leave no doubt that a large majority of holdups are concentrated against banks having little or no means of resistance against attack.

"For example, of the 521 robberies of A.B.A. member banks investigated by our Protective Department in the past two and a half years, 387 succeeded with no sign of resistance or prevention. Moreover, 80 of these 521 attacks against our members found but one employee in the bank and in 12 of these cases the lone employee was a woman.

WEAK DEFENSE

"IN 179 holdups, there were but two bank employees on hand; 92 other robberies were staged against banks having but three employees; and 105 additional bank raids succeeded where there were from four to six employees on hand. This means that in 456 of 521 robberies, their defenders consisted of such a small number of employees as to permit one or two criminals to overpower them without difficulty.

"Significant also is the fact that 348 of these 521 bank holdups were in communities having less than 10,000 population, 27 attacks were against banks in communities with from 10,000 to 50,000 population, and 99 other daylight robberies were against branch banks located in outlying or suburban communities. This also means that only one out of 11, or 9 per cent, of all bank robberies in this country are directed against banks in the larger cities."

"In these times," Mr. Baum asserted, "no bank should be without adequate protective equipment that will at least minimize if not prevent loss, and only those protective systems which have demonstrated their efficiency in defeating bank banditry should be installed.

"The silent, automatic type of alarm system meets these requirements. In addition, there are two types of approved tear gas systems and several styles of bandit resisting enclosures; also, timelocks, or safes equipped with timelocks, which can be set for intervals of a few minutes. The advantages of the silent automatic alarms should not be overlooked. This type of alarm operates in the beginning of a holdup and by obedience to the bandits' commands, without depending upon the frailties of the human element which delay the sounding of alarms. Their relatively low cost makes these silent automatic alarms specially adaptable to the smaller banks which continue to be easiest targets for bank robbery.

"Even the approved tear gas systems are not infallible, but they have their advantages as self-contained protective units where outside aid is inconvenient or too remote from the bank to be effective. One objection to the use of tear gas in preventing holdup is the need of pressing a lever or button to discharge it. Although this necessary action seems too much to expect of the victims in a crisis where their lives are in jeopardy, the fact remains that tear gas systems have defeated bank robbery. Its deterrent value is also important.

"As to the effects of tear gas on innocent bystanders, I believe this danger can be discounted. The tear gas used in these systems, however, may prove injurious to people with heart trouble. Some years ago, an elderly man in California died of heart failure after a fit of coughing brought on by inhaling tear gas. The manufactures of tear gas systems claim that public liability policies held by banks cover this risk of public liability.

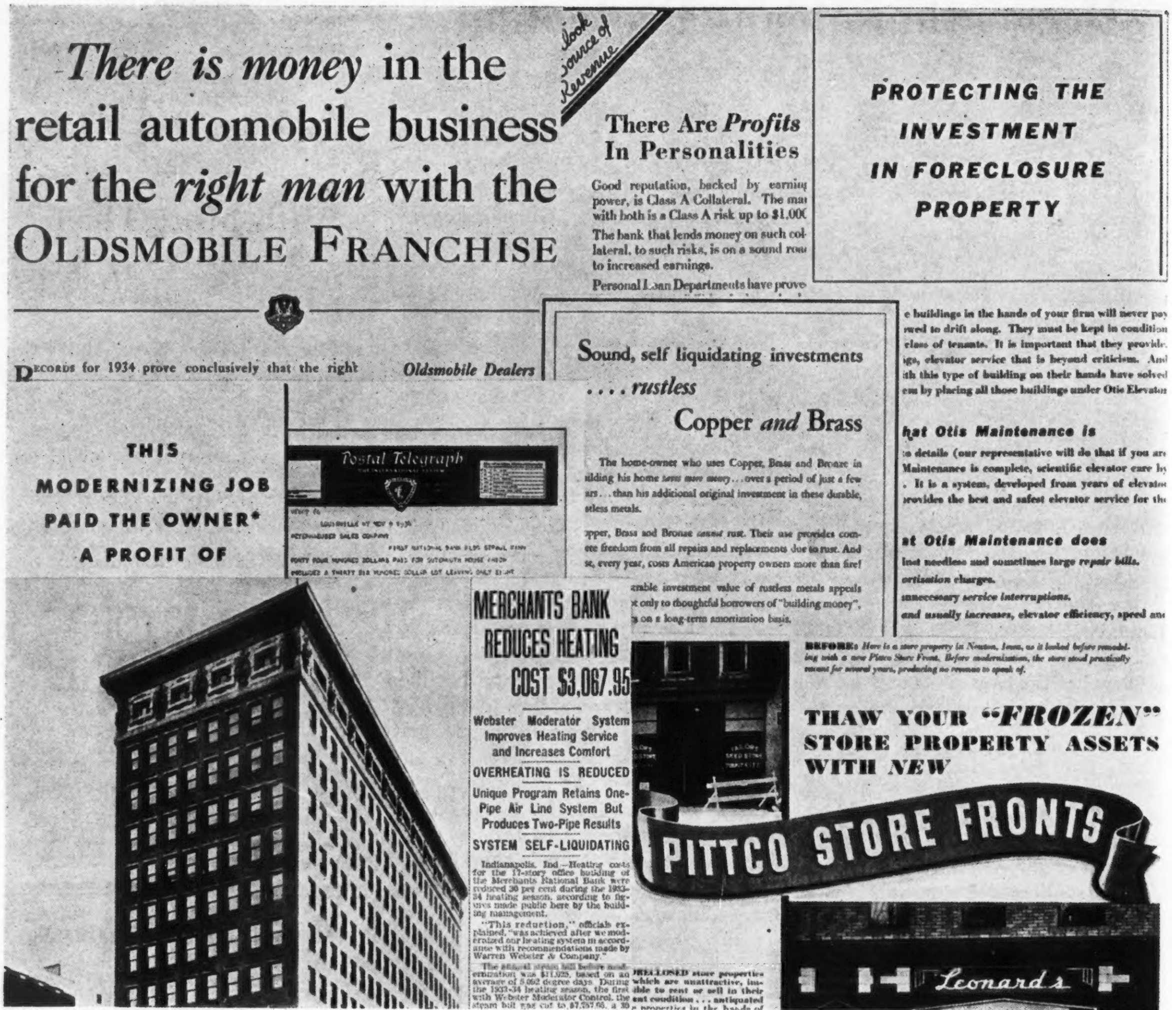
"Among the different styles of bandit resisting enclosures now available, the most modern type was started in production six years ago in Minneapolis. The lock manufacturers also produced timelocks which can be set up or open at intervals of five minutes or longer. These locks are especially adapted for attachment to small safes or chests for safeguarding surplus funds while the bank is open for business.

PLACE OF INSURANCE

"IN recent years the manufacturers produced combination safes and tellers' tills equipped with timelocks and also wired for automatic transfer of surplus funds or locking of the till.

"These and other devices for defeating bank robbery have been available for years, but the banks that need them most are slow to install them. In fact, it is no exaggeration to say that in about 10,000 banks their protective program against robbery is limited largely to the promise of insurance indemnity. Robbery insurance was never intended to substitute for adequate means of prevention, yet so many banks have leaned entirely upon insurance for protection that robbery losses steadily increased for 10 years until this line of least resistance has reached prohibitive costs.

"The current reduction in bank robbery is commendable, but unless more effective measures of prevention are adopted by a far greater number of banks, and particularly the smaller institutions, this most dangerous type of bank crime will continue making the front page in the news of the day."



PARTS OF ADVERTISEMENTS IN BANKING OF OLDS MOTOR WORKS, WEYERHAEUSER SALES COMPANY, WARREN WEBSTER & COMPANY, THE TODD COMPANY, OTIS ELEVATOR COMPANY, AMERICAN BRASS COMPANY, PITTSBURGH PLATE GLASS COMPANY

Reemployment

A DEVELOPMENT of interest to industry and of importance to recovery is the effort banks are making to find work for their deposits.

BANKING
JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

CONVENTION CALENDAR

A.B.A. Meetings

June 10–14 A.I.B. Convention, Omaha, Nebraska
Nov. 11–14 A.B.A. Convention, Roosevelt Hotel, New Orleans, Louisiana

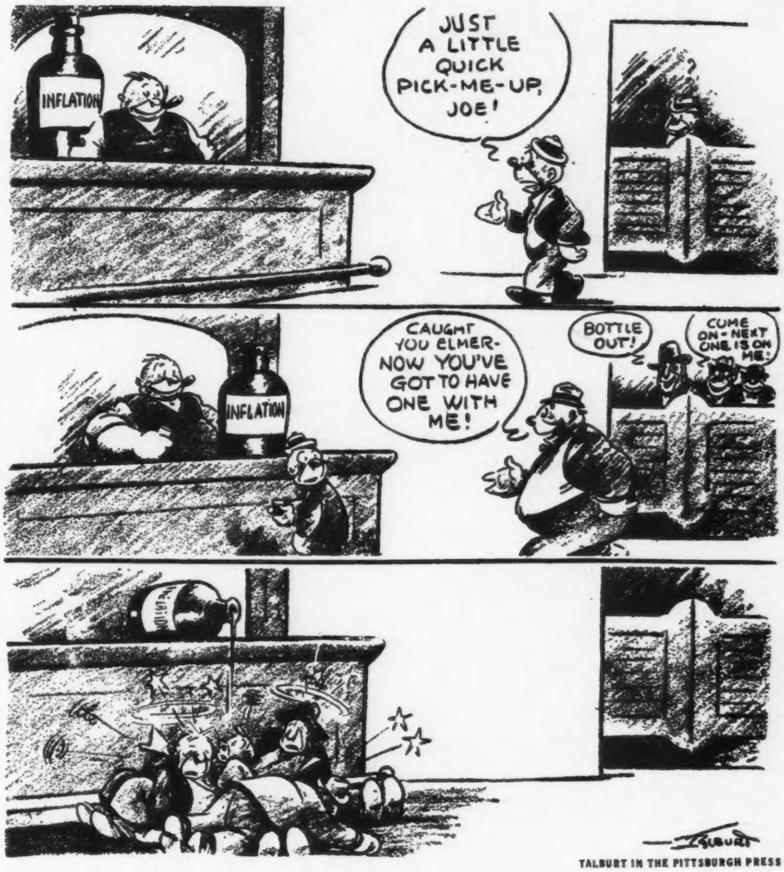
State Associations

May 30–June 2 District of Columbia Bankers Association, Hot Springs, Virginia
June 3–5 Iowa Bankers Association, Ft. Des Moines Hotel, Des Moines
June 5–6 Indiana Bankers Association, Claypool Hotel, Indianapolis
June 5–7 Pennsylvania Bankers Association, Hotel Casey, Scranton
June 6–7 Massachusetts Bankers Association, New Ocean House, Swampscott
June 7–8 Connecticut Bankers Association, Griswold Hotel, New London
June 7–8 West Virginia Bankers Association, White Sulphur Springs
June 8–10 New York Bankers Association, Sagamore Hotel, Lake George
June 12–13 Ohio Bankers Association, Gibson Hotel, Cincinnati
June 14–15 North Dakota Bankers Association, Minot
June 14–15 Wyoming Bankers Association, Laramie
June 17–18 Utah Bankers Association, Newhouse Hotel, Zion Canyon National Park
June 17–18 Oregon Bankers Association, Salem
June 19–20 Minnesota Bankers Association, Nicolett Hotel, Minneapolis
June 20–21 Washington Bankers Association, Winthrop Hotel, Tacoma
June 20–22 Virginia Bankers Association, Homestead Hotel, Hot Springs
June 21–22 Colorado Bankers Association, Troutdale-In-The-Pines, Evergreen
June 21–22 Maine Bankers Association, Rangeley Lakes Hotel, Rangeley
June 24–26 Michigan Bankers Association, Olds Hotel, Lansing
June 25–26 Wisconsin Bankers Association, Green Lake
July 19–20 Montana Bankers Association, Many Glaciers Hotel, Glacier National Park
July 22–23 Idaho Bankers Association, Yellowstone National Park
Nov. 22–23 Arizona Bankers Association, Phoenix

Other Groups

June 7–8 National Safe Deposit Association Convention, Berkeley-Carteret Hotel, Asbury Park, New Jersey
June 10–12 Reserve City Bankers Association, Hotel Equinox, Manchester, Vermont
June 15 Robert Morris Associates, Sky Top Lodge, Sky Top, Pennsylvania
June 17 National Association of Credit Men, Pittsburgh, Pennsylvania
July 16–19 American Bar Association, Biltmore Hotel, Los Angeles, California
Sept. 9–11 Financial Advertisers Association, Atlantic City, New Jersey

There's Always a Morning After



TALBURT IN THE PITTSBURGH PRESS

INDEX TO ADVERTISERS JUNE 1935

Graduate School Enrollment

WITH an enrollment of 220 men representing a majority of the states, the first resident session of the Graduate School of Banking opens at Rutgers University, New Brunswick, New Jersey, on June 17.

Bank officers of virtually every classification are coming to this old eastern campus for two weeks of intensive study in the practices and theories of banking. Instructors for the courses in the various administrative problems of banking institutions are recruited from leading universities, the Government and the profession.

The student body can be classified approximately as follows: 12 presidents of banks or trust companies, 36 vice-presidents, 32 cashiers, 2 comptrollers, 9 assistant vice-presidents, 12 secretaries or treasurers, 13 trust officers, 38 assistant cashiers, 20 assistant secretaries or treasurers, 2 assistant comptrollers, 7 assistant trust officers, 13 department heads, 4 statisticians, 3 auditors. In addition such offices as trust representative, branch supervisor, branch manager and assistant to vice-president appear on the roster, together with 4 bank examiners, a tax expert, a bank trustee and a liquidator.

The school is an outgrowth of 45 years of efforts in the direction of broader education for banking. Sponsored by the American Bankers Association through the American Institute of Banking, this enterprise has the support of many men who have long been interested in the training of bank officers. R. S. Hecht, President of the Association, recently stated his conviction that "as a practical matter the younger men can take out no better insurance for their future in the bank management field than to avail themselves of this fine opportunity now offered to them in the new Graduate School."

Announcement of the plans for the school several months ago by the late John H. Puelicher, chairman of the Association's Public Education Commission, was received enthusiastically by banks and bankers. The faculty committee on admissions received applications from nearly 300 persons who could meet the eligibility requirements, namely, that applicants be American Institute of Banking graduates who were bank officers, or graduates holding positions equivalent to those of bank officers, or bank officers with Institute courses, or the equivalent, to their credit. It was necessary, because of limited facilities, to restrict the enrollment to the number finally selected, places being assigned in the order of application.

The school will be conducted in accordance with college procedure. The students will live and study on the Rutgers campus. They will select one major and one minor subject, attend lectures and seminars, and take written examinations. Facilities will be provided for such recreational activities as indoor baseball, tennis, swimming and calisthenics.

Other resident sessions of similar duration will be held in the Summers of 1936 and 1937, also at Rutgers. The interim periods will be devoted to extension work under supervision of the faculty along lines determined by the interest of the individual. Upon satisfactory completion of the entire course, which includes a final oral examination, each student will receive a diploma.

The Board of Regents of the school comprises: Lewis E. Pierson (chairman), chairman of the board, Irving Trust Company, New York; Dr. Robert C. Clothier, president of Rutgers University; Dr. Ira B. Cross, professor of economics on the Flood Foundation, University of California, Berkeley; Walter J. Cummings, chairman of the board, Continental Illinois National Bank and Trust Company, Chicago; A. P. Giannini, chairman of the board, Bank of America National Trust and Savings Association, San Francisco; Harry J. Haas, vice-president, The First National Bank of Philadelphia, Philadelphia; Francis Marion Law, president, First National Bank in Houston, Houston, Texas; William McC. Martin, governor, Federal Reserve Bank, St. Louis; Lyman E. Wakefield, president, First National Bank and Trust Company, Minneapolis; Edmund S. Wolfe, president, First National Bank & Trust Company of Bridgeport, Bridgeport, Connecticut; and Richard W. Hill (secretary), American Institute of Banking, New York.

Officers of the Association are ex-officio members of the Board.

The director of the school is Dr. Harold Stonier, educational director of the American Bankers Association. Dr. Eugene E. Agger of Rutgers is associate director.

Lyman E. Wakefield (left), president, First National Bank & Trust Company, Minneapolis, and Edmund S. Wolfe, president, First National Bank & Trust Company, Bridgeport, Connecticut, are members of the school's Board of Regents. Pictures of other members have appeared in recent issues